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# Daily Report
## Supplement

# Central Eurasia

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# Central Eurasia
## SUPPLEMENT

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## Economic Issues

### *Consideration of 1996 Draft Budget by Duma Reported

*964E0163A Moscow KOMMERSANT in Russian*
*24 Oct 95 No 39, pp 14-16*

[Unattributed report under the rubric "A Current Topic: Economic Policy": "A Battle Where Enemies Become Allies"]

[FBIS Translated Text] It appears the gloomy forecasts are not coming true. Contrary to the ominous sign, the draft federal budget, on which the State Duma began deliberations on Friday 13 October, was not returned to the government for a radical overhaul. Nevertheless, this is precisely what should worry the ruling elite. The parliamentary left opposition is gradually beginning to behave as if it expects to take over the reins from the weakened hands of the current power.

#### Traditional Controversy

What are the points of contention between the government and the Federal Assembly? They are amazingly traditional. As occurred last year and the year before last, two principally different views on the substance of the budget process clash in the course of deliberations on the draft federal budget. From the government's viewpoint, the budget itself is an instrument of active economic policy, capable of solving a host of tasks the government sets for itself. Cutting state expenditures, optimizing sources of revenue and the deficit, and nonemission methods of covering it—all these components of the budget process are of principal importance in this concept and are subordinated to the main goal: achieving financial stabilization, combating inflation, and improving the state of government finances (both federal and local). This budget concept came practically unchanged from the stormy 1992, when the budget was still adopted on a quarterly basis, albeit without particularly heated polemics. This is precisely why the government's most consistent allies in the course of parliamentary debates are the activists of the "market romanticism" era still remaining in the State Duma, led by their charismatic leader—former acting head of government Yegor Gaydar.

On the opposite side is a different and also quite orderly concept of the budget process as a mirror of the economy and the nature of relations between the federal center and the regions. In its system of coordinates, the budget by itself does not play any active role, being only a reflection of trends developing in the national economy. Formally, the advocates of such an approach operate with quite convincing arguments. Both Mikhail Zadornov, chairman of the Duma's Budget and Finance Committee, and Economic Policy Committee Chairman Sergey Glazyev quite reasonably point out that when the fiscal year results are summed up, government forecasts of socioeconomic development always turn out to be removed from reality. Much closer to it are the calculations of the "parliamentary school," which since 1992 has unfailingly been in opposition to the government's monetarism. An ongoing wisecrack is the fact that the 1993 federal budget built on the Ministry of Economics forecasts was fully executed in the revenue side by 1 July. The parable carefully leaves out, however, the role of the deputy corps as the chief destabilizer of Russia's finances at the time.

#### Traditional Arguments

The oldest is the argument which made a name for Aleksandr Pochinok, chairman of the Supreme Soviet's Planning and Budget Commission, who at the time was only known to a small circle of people. As any work of genius, this argument is simple: The government errs in counting its revenue. One has to know the level of polemics between deputies of the end of 1992 and beginning of 1993 to appreciate the revolution he has accomplished in the budget process: For the first time in many months the parliament was given an instrument of increasing in a formally nonemission and noninflationary way the expense side of the federal budget. At the time, by using higher coefficients of projected inflation, the parliament calculated a whopping amount—more than 1 trillion rubles [R] in additional revenue—which in the course of deliberations on the draft federal budget were immediately included in expense line items by parliamentary lobbyists.

There is nothing surprising in the fact that inflationary forecasts come true, counter the opponents of the "parliamentary school." As soon as you build in the slightest opportunity for inflationary financing of budget expenditures, it is certain to be used at more than 100 percent.

The correlation turns out as follows: A forecasted inflation of 5 percent a month in reality means that inflation will run at 8-10 percent, but forecasting 1 percent inflation will bring it closer to 2-3 percent a month. Nevertheless, the contention that "Glazyev and Company's forecasts" are close to the real outcome only because of deliberately understated inflationary expectations in the budget are not unfounded: If a "monetarist" government cannot keep inflation within set boundaries, there is even less certainty that it can be reined in by following pro-inflationary prescriptions in economic policy.

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**Nontraditional Controversy and Nontraditional Arguments**

These are already part of the current budget process and are the result of a much higher quality of parliamentary opponents compared to previous years. They stem, however, from the same desire to increase federal budget expenditures while being aware that it is practically impossible to increase the tax burden. The measures proposed by the government with respect to tightening tax collection procedures (imposing a unified rule for counting income from products sold by shipping date; repealing permission to set aside 30-50 percent of funds transferred to enterprise accounts for paying wages; and repealing preferential taxation of profit for new small businesses) cannot solve the problem of increasing the revenue side even to the slightest extent. Consequently, we hear again that "the government errs in calculating revenue," only this time it is being backed up by much more sophisticated economic forecasts.

According to these forecasts, real inflation next year will be at least 3-5 percent a month rather than the 1.2 percent forecasted by the government. Nevertheless, the government's opponents, among which intellectual leadership unquestionably belongs to YABloko, go much further this year. Despite their obvious affinity with British Laborites and right-wing social democrats, Yavlinskiy troopers have armed themselves with the budget thesis of the Reagan era: The extent of the deficit is not as important as the sources of covering it. This thesis, however, when applied in practice, produced a rather strange idea: While it is necessary to raise the budget deficit ceiling (R100 trillion instead of R81.8 trillion), it does not seem possible to cover it entirely from noninflationary sources, and therefore Central Bank credit emission is inevitable. YABloko believes that R89 trillion should be financed by internal sources (including R30 trillion in Central Bank credits), and R10 trillion in the budget deficit should be financed from outside sources. In his polemics with the Minfin [Ministry of Finance] on the basic parameters of the budget, Mikhail Zadornov expressed confidence that he will be able to convince IMF experts that it is impossible for Russia to follow a monetary program that assumes keeping inflation at 1.2 percent a month and that returning full-scale to the practice of covering the budget deficit by Central Bank credits (which this year has been practically eliminated) is inevitable.

This, actually, was not at all obvious. The times when the International Monetary Fund obediently allowed Gaydar and Konstantin Kagalovskiy, his representative in international financial organizations, to pull the wool over its eyes are gone forever. Only if the Russian Government demonstrates in practice its adherence to an anti-inflation policy can it count on a steady flow of IMF credits. Which, by the way, are envisaged to cover almost 40 percent of the federal budget deficit in the draft prepared by the Ministry of Finance (R32.45 trillion).

One has to give the Minfin its due: It practically immediately ducked out of an active professional discussion, which under any circumstances leads to a far from professional political debate on the causes of "letting the economy fall to pieces, selling the country for a song, etc." Instead, in the person of its minister, Vladimir Panskov, it said that the maximum concession it can make to the Duma is to increase the forecasted inflation indicator to 2 percent a month, which adds several tens of trillions rubles in revenue. Anything like 3 percent was out of the question, however, and especially out of the question were emission sources of financing the budget deficit. The Minfin was willing to recalculate the budget, however, if the parliamentary opposition somehow convinced the IMF to go easy on fiscal policy in Russia.

This the opposition was not able to accomplish.

**Nontraditional Factors**

Judging by all the signs, a new phenomenon in the budget process this year, in addition to it coinciding with the election campaign, will also be the role of the IMF, which has increased extraordinarily compared to previous years. The Fund has become a "nontraditional factor" in the course of budget discussions in the Duma, which practically predetermined the outcome of their first stage (discussing the budget in the first reading, rejecting the version presented by the government, and creating a conciliation commission to revise it and resubmit it for the first reading).

Despite the government's fears, conceptually the draft budget was not rejected. The reason was first and foremost the touch stance of the Fund's leadership: Either follow accepted standards or solve your financial problems on your own. The latter means that the IMF will refuse to make reserve credit available to Russia, which in itself is not that terrible compared to the inevitable subsequent refusal of holders of USSR and Russian debt obligations to restructure $8 billion of the Soviet debt, which is due in 1996 (this considering that another almost $8 billion of debt payments is already envisaged in the draft budget). Traditionally, creditor clubs set their policy on debt restructuring (that is, extending repayment terms with partial write-off of the debt) in line with IMF policy with respect to the debtor country.

It is this fear of exceeding the inflation limits it has committed itself to which, without a doubt, dictated

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the most important economic event of October—the government's decision to freeze until January prices for products and tariffs of natural monopolies and to introduce the practice of collective agreements on mutual restriction on price increases in services (tariffs). Contrary to general opinion, this was done not so much with the aim of reaping purely political populist dividends at the time of the approaching elections as out of the necessity of keeping the promise to achieve 1 percent inflation by the end of the year (in September it was 4.5 percent, and in October—almost 5 percent). Thereby considerably facilitating the task of Russian representatives at future negotiations for new IMF credit for 1996.

Compared to this policy, in the event of attempting to implement the budget concept with a R30 trillion emission, as proposed by parliamentary factions, would practically inevitably force the Russian authorities to expand the scale of Central Bank credit emission by almost another R70 trillion. Actually, even more, because Minfin specialists admitted privately that in real terms they do not see how more that R40 trillion (of the planned R49.398 trillion) could be found next year from internal sources to cover the budget deficit. This would change the economic situation in the country so dramatically that even the parliamentary left spoke against the initiative of the "government's conservative opponents." The left, while savagely criticizing the government's economic policy, now apparently have convinced themselves that they are the ones who will have responsibility for the development of the Russian economy and finances after 17 December. Strange as it may be, this confidence in practice only helps the government to push through approval of the federal budget before the beginning of the new fiscal year.

[begin box]

**Budget-96: There Is, Of Course, Something New in It**

The main parameters of the draft budget have lately become the subject of very lively discussions between the government and the parliament. Average monthly inflation of 1.2 percent and gross domestic product growth of 1 percent, built into the draft by the White House, caused a sharply negative reaction on the part of both houses of parliament. So far the debates have ended with the creation of a conciliation commission on revising the budget's main indicators. It cannot be ruled out, however, that they will remain unchanged: budget revenue—R332.574 trillion, expenditures—R414.421 trillion, and deficit—R81.848 trillion.

**The Social Sphere Is Burdensome for the Russian Economy**

The discussion on the basic problems of the budget somewhat pushed to the back burner arguments over concrete line-items, which nevertheless deserve special attention.

First of all, reading the government version of the budget leads one to two conclusions. First, Russian taxes, paradoxical as it may sound, are not as burdensome for the national economy as is usually argued. The share of tax deductions in the budget system comprises 25.37 percent of GDP (in the federal budget it is almost half this). This is even less than in the United States. True, we have to keep in mind that as applied to Russia, this indicator is not completely precise: Budget projections include "undercollection" of taxes but exclude payment of social allowances. Including these factors throws Russia in this rating of sorts to almost the bottom of the list—only Northern European countries and the Netherlands can afford to have a share in excess of 40 percent. Hence the second conclusion: The social sphere in Russia is incommensurate with its economic potential and on top of that is catastrophically inefficient, but the government is not proposing any radical steps to change this situation.

**Budget Inertia Is Best Visible in Expenditures**

The best proof of the thesis that the budget possesses extremely high inertia and cannot be changed in one year is in the expense side of the budget. The number of government proposals that represent innovations of sorts is not that great. They include support for the export of products with high added value (read: not oil and gas), for which it sets aide the miserly amount of R500 billion, and expanding (up to R3 trillion) the scope of state support for high-yield investment projects and extending the mixed private-government financing scheme to conversion projects.

Other innovations are somewhat symbolic: By themselves they are quite radical, but their literal implementation is hardly possible, since over the course of the next year the government, as before, will be subjected to pressure from different economic and political groups. Next year the government plans to cut subsidies to the regions which, despite a federal government decision, continue to grant subsidies and preferences not envisaged by federal legislation. In doing this, the government is trying to get regional powers to make good on the promise of across-the-board deregulation of prices, which has not been achieved this year despite the existence of a special presidential edict. In addition, Moscow plans to continue financial pressure on regions

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that do not pay federal taxes (for instance, Tatarstan). The range of sanctions is the same as this year and the effectiveness of their application apparently also will remain at the 1995 level—the government will not be able to completely bring persistent nonpayers into line.

**Budget Health Depends on the IMF**

The most vulnerable part of the draft budget remains its deficit. When the 1995 budget was being approved, the very idea of covering the budget deficit without attracting Central Bank credits appeared very arguable. Today these arguments have flared up with new vigor, and not only because in 1996 there will be no substantial reduction of the share of foreign loans (the government is planning to attract R49.397 trillion from internal and R32.45 trillion from foreign sources). The point is that the question of returning to the means of covering the deficit by Central Bank credits (which may amount to R30 trillion) is being actively discussed. It is this problem, together with the inflation indicator built into the budget, that represent key issues for the current government: Returning to Central Bank credits will result in a refusal by international financial organizations to provide financial aid to Russia. [end box]

***IMF, World Bank Negotiations Viewed**

**Government Economist on IMF Negotiations**

*9640135A Moscow, SEGODNYA in Russian 14 Oct 95 p 2*

[Article by A. Bekker: "Russia Alters Interaction Scheme With World Bank"]

[FBIS Translated Text] **OPIC Creates Investment Funds for Us**

Yevgeniy Yasin, the minister of economics who for the first time visited the annual meeting of the IMF and the World Bank, concluded that it is certainly not Russia, but the poorest countries which are at the center of attention of international financial organizations. "We are not poor, even though we are pretending to be poorer than we are," he said, adding, "another year or two and we cannot expect any favors at all. It is necessary for us to break into competitive markets on our own."

Thus far, however, in their negotiations with the World Bank Russian representatives are continuing to present their line: even though the bank traditionally finances the structural reorganization in countries it works with and credits the social infrastructure in them, Russia stubbornly insists that its own specifics be taken into consideration, in other words, that more loans go into the processing industry. The West, however, views the Russian economy as an appendage to its own highly technical one, and therefore credits our fuel and power engineering complex more readily. A loan in the amount of $600 million was received in 1993 from the World Bank specifically for the petroleum industry.

According to Mr. Yasin, after the meeting in Washington between Anatoliy Chubays and James Wolfenson, president of the World Bank, and the conversation of the minister himself with Yukon Huang, director of the Third World Countries Department of the International Bank for Reconstruction and Development (a subdivision of the World Bank) "it is now possible to speak of progress." Since the World Bank does not work directly with enterprises, the government must make a precise determination which ones will receive the bank investments. A perceptible role in the organization of this type of crediting will be played by the International Finance Corporation (IFC)—another subdivision of the World Bank group. IFC has extensive experience with private projects, but on its own, as a rule, it does not have sufficient capital for investments. Therefore the scheme for interaction with Russia appears as follows: the Russian government forms the basis of industrial policy, the IFC selects priority projects from a group of contenders in various branches and coordinates them with the government, after which the World Bank issues credits for future enterprises.

The new principles of interaction appear to be particularly well suited because first of all, they take into account the branch and regional specifics of Russia, and second they partially supplement the shortage of domestic private and government investments. An additional benefit is also the fact that very effective cooperation with IMF has already been established in the course of privatization of land in sovkhozes and kolkhozes of Nizhegorod Oblast. In the course of the dialogue in Washington with Mr. Lindbak, director of the IFC, the Russian minister of economics discussed the possibility of applying that experience to another 10 oblasts in the country.

It is proposed that some of the other spheres of joint work with the IFC include interaction with the Federal Securities Commission. Specifically: creation of a system of independent registrar-shareholders in the joint-stock companies and a depository as well as a depository-clearing company. It is possible that with the support of the IFC it will be possible to breathe some new life into a somewhat wilted plan to produce motor vehicles at a Ural motor vehicle plant with the participation of Mercedes Benz. At government request that firm amended the draft, making it less ambitious: the current cost is $800 million. Mercedes Benz requested some tax benefits. Following

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the principle of denying individual benefits the Ministry of Economics at the same time adopted what is, according to Mr. Yasin, "a businesslike" proposal for the western company and together with the Ministry of Finance it is studying a scheme of monthly indexation of the cost of fixed capital. The government is prepared to go to the State Duma with that innovation during the discussion of the draft budget for 1996 and the section on taxation of enterprises.

The minister of economics discussed two more projects with Mr. Lindbak. They were: first, the Almaz-I—utilization of satellite communication for the study and protection of the environment; second, the financing of the Novorossiysk Steamship Company Novoship. It is interesting that the IFC has been prepared for a long time to invest funds in the company, but the leadership of the latter is delaying the submission of the register of shareholders to an independent registrar thereby depriving the joint-stock company of investments. "Business is not done that way," Mr. Yasin commented regarding the position of the Novoship leadership. "The language of a Soviet director is not understood on the market."

During his meetings in the U.S. capital, the minister of economics also had a talk with Ruth Harkin, chief of OPIC—a government agency of the United States which insures private investments. In the opinion of Mr. Yasin the possibilities of that agency were used unproductively. Therefore at present OPIC is engaged in the creation of funds to attract investments in Russia, which, according to Mrs. Harkin, is a "high priority" of the agency. At the present time, OPIC is studying investment projects for the Russian fuel and power engineering complex and the lumber and food industry. A large social project with involvement of U.S. technologies stands out in particular. Mr. Yasin stated that the project has not only an economic aspect but creates a major sociopolitical impact as well. The scale of the project is such that Premier Viktor Chernomyrdin himself will be the first to report on it to the public.

### Yasin Details World Bank Talks

*964E0135B Moscow SEGODNYA in Russian 17 Oct 95 p 2*

[Article by A. Bekker: "Consultations Regarding IMF Credit Smoothly Shifting Into Negotiations"]

[FBIS Translated Text]Oleg Vyugin, Director of the Department of Macroeconomics of the Ministry of Finance, reported that on 17 October official negotiations will start in Moscow with representatives of the IMF regarding the issuance of new credit to Russia on the basis of so-called "expanded borrowing possibilities" (EFF). The amount comes to more than $10 billion. The credit is granted for three years and is designed for countries which completed the first stage of financial stabilization.

M. Vyugin held consultations in Washington with IMF specialists on EFF credit. Fund experts submitted research material on countries which also struggled against high inflation. From that material it follows that the threshold of financial stabilization is an inflation index of 30-35 percent per year. After that a real growth of industrial production began in the country, the influx of domestic investments and foreign capital rose, and property stratification of the population stopped.

In that manner the IMF, in granting EFF to Russia is prepared to display flexibility and agree on the standard index of inflation in the economies being reformed. In practice this means that the government which has incorporated 1.2 percent inflation a month in calculating budget parameters has the opportunity of correcting it to 1.8 percent.

Mr. Vyugin said that in Washington "there was no talk about fractions of a percentage point." The government itself, however, officially has not worked out a position on the correction. In the opinion of the department head at the Ministry of Finance "it would be illogical to incorporate 1-2 percent inflation in the 1995 budget, and next year, having already achieved certain macroeconomic success, drop the requirements to 3-5 percent." Mr. Vyugin does not exclude the possibility that the government will still go for correction of the inflation incorporated in the forecast of socioeconomic development of Russia in 1996. According to him, however, this should not be attributed exclusively to the position held by Mikhail Zadornov, chairman of the Budget and Finance Committee of the State Duma, described by him in Washington during meetings with heads of the IMF. "The Fund does not give in to pressure from anyone," Mr. Vyugin observed.

He stated that IMF representatives spoke of flexibility and the possibility of compromise in resolving the question concerning EFF some two months ago, offering to return to that discussion when prospects of inflation become clearer. "The compromise figure is yet to be determined," the department head stated. It is possible to say one thing with total confidence, however: the board of directors of the fund makes a decision only if the budget has a legal basis; that is if it is legislatively adopted by Parliament and adopted by the president.

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***Causes of Solvency Crisis, Solution Sought**

*964E0090A Moscow EKONOMIKA I ZHIZN in Russian Oct 95 No 40, pp 1, 31*

[Unsigned article: "What Is To Be Done About the Nonpayments?"]

[FBIS Translated Text] **The timely and complete fulfillment of payment obligations is a basic condition of a national economy's functioning. In the Russian economy, however, as of 1992, a payment crisis emerged and has been growing. The destruction of payment-clearing relations between enterprises, organizations, banks and the state is occurring.**

**A study of the causes and consequences of the solvency crisis in Russia's economy and of possible ways to overcome them has been conducted by the TPP RF [Russian Federation Chamber of Commerce and Industry] and the RAN's [Russian Academy of Sciences] Market Institute. It also took into consideration the materials from the "Round Table" on the theme of "The Problem of Nonpayments and Its Influence on the Course of the Economic Reform," which was held jointly by the RF Chamber of Commerce and Industry and the Free Economy Society. We present to EKONOMIKA I ZHIZN's readers this study's materials in condensed form.**

The basic causes of the nonpayments, in the opinion of the study's authors, consist of the following:

— the difficulties in selling the domestic commodity producers' final output;

— the overall shortage of means of payment in the national economy;

— the financial market's isolation from the economy's real sector, the production and selling of output and the investments in the national economy;

— the intersectorial and intrasectorial price mismatches;

— the loss of working capital by the enterprises both as a consequence of devaluation and as a consequence of expropriation through taxation under the conditions of inflation;

— and the nonpayments of the state to enterprises and of CIS countries to Russia.

**The Difficulties in Selling the Final Output**

The bulk of the nonpayments is concentrated in the basic sectors, which is explained by industry's weighted structure, as well as by the fact that it is precisely these sectors (the fuel and energy complex and metallurgy) which are owed a significant part of the state's nonpayments on its own obligations. Yet, all the same, the initial momentum for the nonpayments lies in the sectors which work for the end consumer and run directly into the suppressed consumer demand. The state's nonpayments are being caused by the tax shortfall, while the latter is associated with the production slump, in which the sectors which produce the end products are leading. These end-product sectors are precisely the ones which are characterized by the sectorial indebtedness multipliers which are exceeding the national economy's multiplier.

The sectorial indebtedness multiplier is the factor which indicates how much the indebtedness in the national economy as a whole increases (decreases) as the indebtedness in a given sector increases (decreases). The national economy's indebtedness multiplier at the end of 1994 amounted to 4.12. This means that, when additional indebtedness arises in the national economy by 1 trillion rubles [R], the total increase in mutual indebtedness because of intersectorial influences will exceed R4 trillion. At the end of 1994, the sectorial indebtedness multipliers amounted to: 8.05 in the food industry; 5.43 in machine building and metal working; and 4.35 in agriculture and forestry; on the other hand, the sectorial indebtedness multiplier amounted to: 3.07 in electric power engineering; 3.85 in the oil and gas industry; 3.49 in ferrous metallurgy; 3.9 in the building materials industry; and 2.87 in transport.

For the majority of the sectors, an overall consistency is operating: the farther technologically removed a sector is from the extraction and production of primary resources and power, the larger the indebtedness multiplier which characterizes its payment relations with other sectors. (Certain deviations exist: the coal industry's is 6.27 and light industry's is 3.09.) This is why overcoming the production slump and the selling difficulties in the end-product sectors and organizations and in their payment and clearing relations is of priority importance for overcoming the sales crisis as a whole. Also having an effect here are the shortcomings of the market's organization and the imported goods' aggressive competition. It is apparently not only a matter of the domestic goods' noncompetitiveness, but also of the control over the channels for the promotion of a commodity to the consumer. This is why the problem of the selling difficulties needs to be treated more broadly — as a problem of the organization of the sales market for domestic commodity producers.

The precipitous privatization of elements of the market's infrastructure (the storage capacities and transport) has led to an actual monopoly of middlemen in the sphere of commodity promotion, who are interested not in the maximization of the production and sales of domestic

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goods, but rather, in the maximization of prices and their own revenues. World experience shows that such a situation in the sphere of commodity promotion ends in an overproduction crisis, from which both the producers and the consumers suffer.

Industry's answer to such a situation may and should be the establishment of syndicate-type sales and supply associations of producers for the purpose of establishing control over the domestic commodity producers' market. Obviously, under our conditions, syndicates are needed, which unite enterprises from the standpoint of subsectors and regions for the purpose of organizing a domestic products market, in particular, with the exclusion from the domestic market of those foreign-made products which can be completely replaced by domestic ones. The syndicates can form large-scale wholesale firms or enlist as the leaders existing large trade firms.

The commodity producers' actions for the conquest of the domestic market should be supported to the utmost by state policy. The following measures can be recommended:

— the extension of the control over exporting to the most important types of raw materials used in domestic industry, including in the food and light industries;

— the exemption from customs fees of raw materials, components and dyes imported for reprocessing at domestic enterprises;

— the establishment of a system for extending credit to buyers of domestic-made durable goods and prohibiting the sale of foreign-made goods on credit;

— all possible assistance from federal and municipal authorities for the establishment of a sales system which belongs to the producers —right up to the organization of retail trade;

— state regulation of the functioning of the market's infrastructure, including its privatized elements (the storage system and the commodity exchanges), and including rules for storing goods, the establishment of a maximum payment for storing goods, public accessibility to the storage system when space is available and a prohibition against firms which specialize in storage implementing independent trade deals on their own (except in instances of damage to stored goods);

— and the establishment of specialized exchanges, warehouses and wholesale firms by federal and municipal organs with the involvement of interested enterprises.

The regulation of foreign economic relations which exert influence on all aspects of economic life and have a large effect on the payments crisis should become part of the state policy for the market's formation:

the competition from foreign goods limits and reduces the sales of domestic goods;

the exporting of raw materials is bleeding the domestic raw materials market white and leading to an increase in prices for raw materials;

the draining of capital from the country is being carried out through the exporting and importing of goods: the export agreements are being signed without an indication of the payment time frames and the import agreements include prepayment without a guarantee for the receipt of the commodity.

It is necessary to restore state control of exporting and importing. The exporting of the most important types of raw materials, including energy resources, metals, chemicals, raw materials for light industry and lumber, should become a state monopoly. The amounts of exports need to be limited by the needs of domestic consumption, while the revenues from exporting could replenish the state budget.

The importing of goods should be licensed. Smuggling, which evades customs fees, must be stopped by using all the state's enforcement capabilities. The trade in alcoholic and tobacco products should actually be monopolized by the state. Prepayment during importing should be prohibited and replaced by guarantees from the Vneshekonombank [Bank for Foreign Economic Relations].

The domestic currency should be actively introduced into the sphere of foreign economic relations, which would substantially facilitate currency control and be a practical step toward the domestic currency's convertibility. It needs to be suggested to foreign buyers who acquire an export commodity from Russian exporters that they make payments in Russia's currency which they should acquire at the current rate of exchange from authorized banks. The Central Bank should be given the right (but not the obligation) to buy 100 percent of the exporters' currency, which it can use within the limits dictated by the policy for supporting the ruble's stability.

**The Possibilities of Bill Circulation**

The money supply in the economic turnover in relation to the VNP [Gross National Product — GNP] declined over the years of the reforms by more than a factor of 6. The mechanism which provided an organic connection between the needs of the economy for means of payment and the emission of money has been lost. In the thirties and forties, the payment and settlement credits served as

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this mechanism and, prior to that, the circulation of bills [notes] and their discounting and rediscounting. The mechanism for channeling the monetary emission into the servicing of the current economic turnover, which is the main task of an emission, has also been lost.

The monetary emission, called upon by its very nature to service the current economic turnover, is presently directed either into special-purpose credits, forming working capital for one sector or another (as a rule, such credits do not reach the goal and are spent other than as intended), or it feeds the financial market, which is isolated from the economy's real sector. The kinds of serious consequences, to which the diversion of the supply of issued money into the sphere of financial speculation and, in particular, of currency speculation leads, were shown by the precipitous drop in the ruble's exchange rate on 11 October 1994.

**The widespread introduction of commercial credit, of bills, of the circulation of bills and of their discounting and rediscounting may serve as a tool for solving the triune problem: 1) the saturation of the turnover with the needed supply of the means of payment; 2) the establishment of an organic connection between the supply of money in circulation and the needs of the payment transactions; 3) the establishment of a sufficiently rigid system for channeling the monetary emission into the servicing of the current economic turnover.**

The course should be headed not toward the generation of bank bills which contribute to a great extent to the diversion of money away from the servicing of the current economic turnover (especially when it is a matter of certificates of deposit, issued as bills), but rather, toward the emission of bills of enterprises and syndicates, their discounting by commercial banks and their rediscounting by the Central Bank.

The introduction of the circulation of bills is being impeded by a number of circumstances which can be eliminated. Thus, the taxation of a shipped commodity means the diversion of monetary assets prior to the receipt of profit for participants in the bill turnover. Transactions involving bills should be given the same status as domestic economic transactions and not taxed (if these transactions are not associated with direct monetary receipts), which would expand substantially the opportunity for using them. The payment of taxes (certainly after the receipt of the monetary earnings for the sold commodity), as well as the covering of the enterprises' needs for money (for the payment of wages, first of all), should be provided by the widespread development of the discounting and rediscounting of bills, as well as by the promotion of the use of enterprises' deposit accounts (including currency accounts) for payment. On the scale of the national economy, the scope of the bill discounting should be determined by the enterprises' need for money (at the least — for the payment of wages and taxes), which cannot be covered by the enterprises' monetary resources.

In the instance of the guaranteed discounting of a bill by a bank, the bill's buying power is equal to the amount paid by the bank during the discounting. This amount, based on its nominal value, increases based on the degree of the approach of the bill's redemption date (inasmuch as the discount deducted by the bank during the discounting depends directly on the bill's redemption date and decreases based on the extent of the reduction in this time frame). The widespread introduction of discounting into the commercial banks' practice and the explanation of the practical dynamics of a bill's buying power will contribute to the transformation of bill settlements into one of the basic forms of payment.

The setting up of a reliable circulation of bills is inseparably linked with the structuring of the domestic commodity producers' market. A reliable bill which reflects a commodity deal can be issued by an enterprise or a syndicate which has a supply of the popular commodity. This is why it is desirable that a large trade enterprise or syndicate be the issuer, while the established intrasyndicate relations ensure confidence in the bill and its ability to circulate.

**Only a circulating bill can really replace money as a means of payment. This is why the introduction of commercial credit should proceed in organic connection with the domestic commodity market's organization.**

The selection of large trade firms and the establishment of syndicates which head up industrial groups will make it possible to issue reliable bills and to make protests against bills a sufficiently rare event, as it was in the twenties.

The commercial and industrial groups may be headed up not only by a large trade enterprise or syndicate, but also by a commercial bank associated with a given commercial and trade group or several of them, which know well the situation of the enterprises which are part of them and which service settlements and carry out the discounting of bills, tracking their actual circulation through the commodity turnover channels. For a specific group of commercial banks, bill discounting should become the most important credit transaction.

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### The Development of Discounting Transactions

Recently, in presidential edicts and in the Central Bank's regulations (Temporary Basic Regulations on the Rediscounting of Bills of Enterprises by the Bank of Russia), the organization of bill rediscounting by the Central Bank was announced. This, however, is inadequate. In order that the newly issued money supply be directed into the servicing of the current commodity turnover, the bill rediscounting should become the basic form of emission — cash and noncash — carried out by the Central Bank. Reliable bills can serve as security for the bulk of the emission. The necessity of securing the Central Bank's emission in a specific proportion using bills and in a specific proportion using hard currency should be fixed legislatively.

If the bills are to be used as the basic means of payment in the domestic economic turnover, then the total amount of their emission (provided that the national economy's indebtedness multiplier is equal to 4) should amount to one-fourth of the indebtedness amount. This figure may be set even lower, if it is taken into account that the indebtedness multiplier in relation to the extent of the overall increase in indebtedness has a tendency to increase. An issued bill may circulate not four times, but rather, five, six or more times, servicing commodity deals and other payments. Furthermore, by far not all bills go through the procedure of discounting and rediscounting. Reliable bills may remain in circulation until the moment of their redemption. Consequently, the possible amount of the discounting and rediscounting will be substantially less than the overall portfolio of bills. In addition, as an operational measure, an obligatory procedure for the redemption of bills, both promissory and exchange ones, should be developed and introduced within the shortest possible time frames.

**If that Central Bank emission which is currently being directed toward the support of commercial banks and, to a significant degree, is being drawn into transactions in the financial market were used for the rediscounting of bills, then an additional monetary emission would not be needed in order to overcome the payment crisis.** The necessary means of payment would be generated by the payment transactions themselves in the form of bills, while their replacement by money in the needed amounts would be achieved without an additional burden on the emission apparatus.

However, the following circumstances are hindering the solving of the examined problem.

First, without specific institutional changes in the market's infrastructure, it will be impossible to issue sufficiently reliable bills capable of serving as material for discounting and rediscounting. In this instance, commercial credit will just be transformed into a new form of documentation of an enterprise's insolvency and widespread dissemination will result in a protest against bills as a new form of bankruptcy. Second, the commercial banks, with rare exception, are experimenting in the area of the issuing of bank bills and are not displaying interest in discounting the bills of enterprises, which is quite understandable under the contemporary conditions. Third, the Central Bank has not established conditions for the rediscounting of bills, while its issued "Temporary Basic Regulations for the Rediscounting of Bills of Enterprises" make rediscounting extremely difficult. Apparently, all three problems — the market's reorganization, the setting up of bill discounting by commercial banks and of rediscounting by the Central Bank — need to be solved as an integrated set.

Bill circulation minimizes the need for money, cash and noncash, and the mutual crediting of indebtedness minimizes the need for commercial credit and minimizes bill circulation. This is why it is advisable to prepare and to implement intersectorial mutual crediting of the enterprises' indebtedness, but without giving the economic organs credits for paying off a debit balance (which may arise based on the results of the crediting) using the state's centralized credit resources, as was done in 1992. The due receivable and payable indebtedness of enterprises of all types, which remains after the crediting, should be restructured into commercial credit.

The mutual crediting of indebtedness does not eliminate, of course, the causes of the emergence of nonpayments and is only a measure which temporarily eases the payment crisis. But, even after the overcoming of this crisis, creditings of the mutual demands of enterprises, banks and other economic organs should remain a normal form of indebtedness repayment. If the crediting of mutual indebtedness entails losses for the budget in the form of a reduction in the volume of collectible taxes, then this means that the building of the tax system is faulty and not the principle of the mutual crediting of obligations.

### The Loss of Working Capital by Enterprises

The sharp increase in prices over the years of the reforms has led to the devaluation of enterprises' monetary working capital, as well as of their amortization funds. **The enterprises could restore their working capital and amortization funds without additional infusions of money into the economy, if the confiscation of working capital and amortization does not continue systematically through the taxation mechanism.** Currently, there is still the problem of the inflationary component of profit, which serves as the taxation base on an equal basis with the actual profit. As a result,

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the tax confiscations are spreading not only to part of the profit, but also to the working capital and the amortization funds, which is undermining the reproduction process at the enterprises. This is why it is necessary to conduct reappraisals regularly of the enterprises' capital stock and to index all the limiters of the enterprises' revenues such as, at the least, wages which are related to production costs and not subject to the profits tax. In accordance with the requirements of the International Bookkeeping Standard, there should be an adjustment of the financial reports on profits and losses in relation to the price index. Subsequently, it is necessary to abolish compulsory advance payments of due amounts into the budget.

The enterprises' working capital should be replenished also through short-term and intermediate-term bank credits, which is possible in the instance of an overall improvement in the financial sphere and its reorientation toward the servicing of the economy's real sector. The expansion of working capital may also be partially achieved by means of bill circulation. The discounting and rediscounting of bills will be equivalent to granting credit to the enterprises for the period of circulation of the funds in settlements, which is equivalent to an expansion of their working capital by 20-25 percent.

The payment crisis and the shortage of working capital are mutually influencing factors. The nonpayments have led to a sharp slowdown in the turnover of funds in the national economy and to the freezing of assets in the form of overdue indebtedness. There has occurred and is continuing still the uncompensated redistribution of resources from the extracting sectors to the processing sectors, where, in light of the difficulties in sales, the resources are being frozen to a significant extent. Overcoming the slump (and, correspondingly, the payment crisis) in the machining sectors will stimulate the acceleration of the circulation of working capital in the national economy and to its uniform and economically sound distribution among the economy's sectors.

**Conclusions**

The proposed measures for overcoming the payment crisis may be divided into: a) urgent ones which can be implemented relatively rapidly and ease the present situation; and b) long-term ones capable of producing a complete solution, as well as improving on the whole the Russian economy's situation.

The urgent measures include the following:

1. The introduction of bill circulation, including the discounting and rediscounting of enterprises' bills by banks, which is capable of easing the scarcity of means of payment and partially replacing money with assets of limited liquidity.

2. Support for cartel agreements and the activities of factoring firms which take upon themselves the functions of a guarantor of payments and the establishment of syndicates and other large trade firms with state participation, which establish the selling prices for their own products.

3. The implementation of the Central Bank's proposal about the complete examination of the activities of debtor enterprises and the compulsory recovery of liquid assets for the repayment of indebtedness.

4. The use of the procedures for clearing crediting at the regional and interregional levels (the experience of Chelyabinsk and Tula).

5. The elimination of the state's nonpayments to the economy's real sector.

The long-term directions for the improvement of the monetary and financial situation come down to the following:

1. Measures to correct the disparity in prices and to stabilize the price proportions, which will make the financing of the economy's real sector no more risky and no less profitable than the short-term extension of credit for middleman transactions and playing the currency and financial markets. The use of the tax, subsidy and customs mechanisms for this with due consideration of the experience of the industrially developed countries.

2. The introduction of a stable parallel currency (the chervonets) capable of replacing the dollar as a means of saving for banks, enterprises and the population. Restricting currency speculation, admitting to the currency market only those legal persons who have licenses for the importing or exporting of capital and obliging exporters to sell a portion, as established by the Central Bank (up to 100 percent), of currency earnings. Reducing the number of commercial and state middleman structures which have licenses for foreign trade transactions. Improving the rules and mechanisms for controlling exporting and importing and the credit and financial transactions associated with them in order to reduce the opportunities for the illegal exporting of capital abroad.

3. The strictly controlled channeling of the bulk of the Central Bank's emission into the servicing of the current commodity turnover in the economy's real sector and of savings and accumulations into investments and state support of price parities.

4. The improvement of the legislation on enterprises and joint-stock companies, which will ensure effective

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monitoring of the administration's activities on the part of the supervisory council (board of directors) with due consideration of the developed countries' corresponding experience.

[Boxed material follows]

**According to the RF State Committee for Statistics' Data**

According to the status report for 1 August 1995, the total overdue indebtedness of enterprises of industry, transport, construction and agriculture (accounts payable and the indebtedness for bank credits and for loans) increased in comparison with the preceding month by 11 percent and amounted to R183.1 trillion.

The overdue accounts payable increased over July by 11 percent and amounted on 1 August 1995 to R173.1 trillion, while the overdue accounts receivable increased by 7 percent and amounted to R130.2 trillion.

**Relative Amount of Overdue Accounts Payable and Receivable as Against the GDP**

| | January | March | June | July |
|---|---|---|---|---|
| Overdue Accounts Payable: | | | | |
| as a Percentage Against the Preceding Month | 110 | 106 | 109 | 111 |
| as a Percentage Against the GDP | 130 | 117 | 115 | 121 |
| Overdue Accounts Receivable: | | | | |
| as a Percentage Against the Preceding Month | 105 | 107 | 107 | 107 |
| as a Percentage Against the GDP | 113 | 97 | 90 | 92 |

Of the total overdue indebtedness, the accounts payable's share is R173.1 trillion (95 percent), that of indebtedness for bank credits is R8.5 trillion (4 percent) and that for loans is R1.5 trillion (1 percent).

The average time frame for the repayment of accounts payable has increased from 69 days in June to 89 days in July.

The share of the overdue accounts receivable of the examined industrial and agricultural enterprises and construction and transport organizations came to 46 percent of the total volume of accounts receivable. The overdue accounts receivable over 3 months reached R84.1 trillion. Their share in the total volume of overdue accounts receivable came to 65 percent.

In the structure of the overdue accounts receivable, the largest share belongs to the indebtedness of buyers — R110.8 trillion or 85 percent. In the buyers' overdue indebtedness to enterprises and organizations of industry, construction, transport and agriculture, the indebtedness for received bills amounted to 0.5 percent. The share of indebtedness for state orders and federal programs in the volume of the buyers' overdue indebtedness fell in comparison with June by 1 percentage point and amounted to 6 percent. The average time frame for the repayment of accounts receivable increased in comparison with June from 57 days to 72 days.

In January-June of 1995, on the average over a month, 16 percent of shipped products were not paid for.

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**Solvency of Enterprises of Industry, Construction, Agriculture and Transport (Correlation of Monetary Assets and Overdue Indebtedness to Suppliers)**

| | January | March | June | July |
|---|---|---|---|---|
| Enterprises' Monetary Assets as a Percentage Against Overdue Indebtedness to Suppliers | 19 | 25 | 22 | 19 |
| including: | | | | |
| Industry | 19 | 26 | 23 | 20 |
| Construction | 21 | 24 | 29 | 25 |
| Agriculture | 12 | 12 | 13 | 10 |
| Transport | 20 | 25 | 19 | 16 |

For the examined sectors, based on the status report for 1 August 1995, the accounts payable exceeded the accounts receivable: by 25 percent in industry, by a factor of 2.2 in agriculture, by 12 percent in transport and by 2 percent in construction. [End of boxed material]

### *Hard Currency Reserves Management Policy Viewed

*964E0090B Moscow DELOVOY MIR in Russian 5 Oct 95 p 1*

[Article by Yekaterina Bogatova: "Russia Has a Fitting Place: the Central Bank's Currency Reserves Amounted to More Than $10 Billion"]

[FBIS Translated Text] **A press conference was held in the Central Bank, which was devoted to the Bank of Russia's currency reserves management policy which was pursued by Aleksandr Potemkin, the manager of the Foreign Transactions Department. Examined were questions about the destination of the currency reserves, the level of their sufficiency, the directions and geography of investing, the currency structure and the efficiency of the distribution of the resources.**

With the abolition of the obligatory sale of part of the export earnings, the Central Bank's transactions in the domestic currency market and the direct purchases of currency from the Ministry of Finance, as well as the revenues from transactions involving the currency reserve funds in the foreign market, have become the basic sources of receipts for the currency reserve.

A. Potemkin said that, at the present time, Russia has finally taken a fitting place among the countries with the largest currency reserves.

It should be recalled that reserves which cover at least 3 months of importing are considered to be sufficient. So far, Russia has still not reached the necessary level (the sufficiency factor for the Bank of Russia's currency reserves comes to around 2.1 months), even though it is ahead of a number of developed countries with respect to this indicator.

The currency reserve funds are actually a reflection on the plus side of the TsB's [Central Bank] balance sheet of the ruble money supply placed into circulation and they serve to ensure the national monetary unit's stability. In this sense, it is impossible to talk about too large an amount of reserves or of the possibility of using part of them for purposes not associated with ensuring the national monetary unit's stability. Any diversion of the currency reserve funds for other purposes, with the exception of the exchange rate policy, would mean a disturbance of the proportions of the domestic monetary turnover and the possibility of creating a crisis situation in the domestic currency market.

The availability of assets in a foreign currency, which ensure the ruble monetary base, characterizes the "quality" of the money in circulation. In comparison with last year, this indicator has improved significantly in Russia.

At the present time, the ratio of the currency reserve funds is maintained in the currency basket selected by the Central Bank (75 percent — U.S. dollars, 20 percent — German marks and 5 percent —other currencies); they are invested in instruments of two financial markets: the money market and the state securities market. The overwhelming part of the funds (around 95 percent) is invested in short-and intermediate-term treasury securities of the corresponding currencies' issuing states. Such a placement makes it possible not only to ensure

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the liquidity necessary for "tomorrow" settlements, but also to maintain absolute reliability. The funds invested in securities are kept off the balance sheet in the corresponding countries' central banks and thus preserved even assuming the theoretical possibility of the bankruptcy of these banks.

Just like other central banks, the Bank of Russia refrains from the large-scale placement of currency reserve funds into unsecured instruments of the financial market (interbank deposits, certificates of deposit and bills) and basically carries out REPO-type transactions.

In connection with the procedure for transaction settlements (exchange transactions and in the interbank currency markets), the RF Central Bank places a relatively small part of its currency reserves into "overnight" deposits in first-class (based on the classification of the international rating agencies) foreign banks. It is precisely these funds which are used on an immediate basis during the conducting of currency interventions.

***Central Bank's Monetary Policy for 1996 Viewed**

*964E0177B Moscow KOMMERSANT-DAILY in Russian 24 Oct 95 No 39, pp 17-18*

[Article by Mikhail Delyagin under the rubric "Topical Theme/Economic Policy": "Reserve Player"]

[FBIS Translated Text] **Regulation of the financial sphere is a most important element not only of economic policy but of generally all policy of any contemporary state. History confirms that even in a centrally planned economy, all major transformations and large-scale actions rest on the foundation of national finances. Their role increases especially in a liberal and open economy. Viktor Gerashchenko demonstrated this most clearly when in July 1992 he fundamentally changed the state's economic policy in fact by the efforts of the Central Bank alone.**

**The Central Bank and the Government: One Scenario of Action**

In the event of the adverse development of the budgetary process, the prospect of the Central Bank next year pursuing a financial policy which is minimally dependent on the inflationary budget adopted by the Duma seems completely realistic. True, precise coordination with the government is a condition of the success of this separatism. The draft of the "RF Central Bank Fundamental Directions of Monetary-Credit Policy for 1996," which is the second most important document describing Russia's development in 1996 after the federal budget, is gratifying specifically because of the rejection of the old, "explosive" methods of Viktor Gerashchenko and assurance not only of the need but also the possibility of joint actions with the government.

The principle of unity of state monetary-credit policy became a most important element of this document, though it is not directly named. It can be effectively implemented only if the actions of all organs of state power involved in regulating the financial sphere are reconciled and coordinated. Despite the self evidence of this approach, the path to its practical implementation is fairly difficult. And not only because of the clash of political interests and ambitions, but also because of differences in the level of qualifications of specialists of various departments.

After the abandonment of strict monetarism in June 1992, the annual Agreement Between the Government and the Central Bank on Economic Policy first signed in May 1993 was the first significant step on the path of implementing a unified monetary-credit policy. The subsequent steps taken in the crisis conditions of "black Tuesday" and August 1995 were not so clearcut, but they conclusively shifted the strategic agreement to the direction of close operational cooperation, above all between specialists of the Central Bank and the Ministry of Finance.

However, the complication of financial markets makes this cooperation inadequate, requiring that new organs of state government and new branches of state power be joined to it. The Central Bank, which occupies the most independent position among the economic departments, is now in a position to be the natural center for formulating not only the state's financial but even economic policy.

**1996: Two Scenarios of Depression**

The draft of the Fundamental Directions is unique for Russia's contemporary political life in terms of its degree of deliberation. Specialists of the Bank of Russia computed three basic variants of the country's development (see the table).

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**Table: Scenarios of Development of Russia's Financial Sphere in 1996**

| Item | Variant 1 | | Variant 2 | | Variant 3 | |
|---|---|---|---|---|---|---|
| | Scenario A | Scenario B | Scenario A | Scenario B | Scenario A | Scenario B |
| GDP, trillions of rubles | 2,100 | 2,100 | 2,430 | 2,430 | 2,850 | 2,850 |
| Real GDP in Percentage of 1995 Level | 99-101 | 99-101 | 95 | 95 | 98-100 | 98-100 |
| Average Monthly Inflation, percentages | 1 | 1 | 4.5 | 4.5 | 6 | 6 |
| M2, trillions of rubles | 295-313 | 161-277 | 318-332 | 250-276 | 360-374 | 339-356 |
| Average Monthly Increase in M2, percentages | 3.3-3.8 | 2.2-2.8 | 3.9-4.3 | 2.5-2.8 | 5-5.4 | 4.5-4.9 |
| Rate of Growth in M2 During 1996, percentages | 148-157 | 131-139 | 159-166 | 134-139 | 180-187 | 170-178 |
| Rate of Turnover of M2, in multiples | 6.9 | 7.8 | 7.5 | 8.9 | 7.8 | 8.2 |

The **first variant** is based on the full pressure of inflation. Given today's uncompetitive structure of the economy, a zero reduction in GDP [gross domestic product] without an inflationary jump is possible in only one case: on condition that the investment crisis is overcome. The reduced lag in investment activity as compared to last year (it came to 24 percent in the first quarter, 18 percent in the first 6 months, and 17 percent in January-September, including 8 percent in September) should not be deceiving: such global changes do not occur within a year, the economy is too sluggish for that. The government prognosis for 1995 gives the reduced physical volume of capital investments at 16 percent. It is significant that even the Central Bank itself, judging from its intention to increase the real money supply [M2], is not too confident of the possibility of 1-percent inflation. Most likely this variant is included in the prognosis from a sense of duty to the World Monetary Fund and solidarity with the government which has been forced to take creditors' conditions into account. Obviously it should not be taken seriously. The extreme (4.5-fold) gap in the key indicator, average monthly inflation, between the first and second variants also favors this assumption.

The **second variant** envisions a fairly high rate of inflation (though lower than most reasonable prognoses) of 4.5 percent a month. The proposed 5 percent reduction in GDP not only exceeds the corresponding indicator in January-September 1995 (3 percent, including 1 percent in September), but even the governmental prognosis whereby GDP will decline by 4 percent in 1995. Thus, this variant assumes more stimulation of the economic recession as a result of the continuation of the extremely strict financial policy and underfinancing of the economy. It describes Russia's economic future in the event of the continuation of the present policy, whose reserves of stability, however, have been virtually exhausted. An extremely strict policy has no future.

In this variant, the abnormally high rate of turnover of M2 in Scenario B, which exceeds the same indicator of the even more inflationary variant (see table), is somewhat questionable. It is predicted if present trends continue and money turnover does not slow down as a result of the development of financial markets and revival of investment processes. The apparent paradox will be resolved once we recall the underfinancing of the economy envisioned by this scenario. World experience in employing strict anti-inflationary programs confirms that as the supply of money declines, its rate of turnover

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naturally increases. That, strictly speaking, is exactly where the standard reason for the failures of monetarist prognoses of lower inflation lies: the anti-inflationary effect from the slowed increase in the money supply is partially offset by its accelerated turnover.

In either case, the second variant has just as little chance to be implemented as the first. The present financial policy, by virtue of perfectly objective reasons, cannot either be made tougher or remain the same. It can only be moderated.

That is precisely the development of events which the **third variant** proposed by the Central Bank presupposes. Judging from the future slowdown or even reduction in the drop in GDP, this variant envisions the nearly optimal moderation of financial policy. This scenario actually coincides with the prognosis the presidential Analysis Administration made several months ago. The May prognosis of monthly inflation in 1995 was in fact confirmed both by its real dynamics in May-September, and by the government's latest prognosis whereby average monthly inflation in 1995 will come to 7.5-8 percent.

**Western Creditors: Not a Single Scenario at Present**

The third variant is perhaps the optimal one—for that very reason its implementation in pure form is unlikely. Based on today's domestic and foreign policy realities, we should most likely expect a certain combination of the second and third variants of prognosis. What this combination will be depends on how quickly international financial organizations realize that the extremely strict financial policy they are dictating is conducive to left-populist forces coming to power in Russia. That is unpredictable, however. For now it is unclear whether the State Duma's possible move toward the left will become truly important for Russia's creditors or whether they have already reconciled themselves to it as an annoying but not so very significant inconvenience. As experience shows, for most Western observers, the difference between our communists and Western social democrats or East European leftists is still not completely clear.

Come what may, by making the prognosis the Central Bank has clearly declared its intentions. Fixed in documents, they form a fairly strict framework of state policy even after possible fundamental changes in the leadership of the Central Bank itself. In this case the draft of the Fundamental Directions will become a kind of testament. One which is so convincing that it will be difficult to ignore.

***Amendments to Privatization Law Proposed**

*964E0136A Moscow ROSSIYSKAYA GAZETA in Russian 12 Oct 95 p 3*

[Text of proposed amendments]

[FBIS Translated Text] The Federation Council, having reviewed the Federal Law "Changes and Additions to the Law of the Russian Federation 'The Privatization of State and Municipal Enterprises in the Russian Federation'" as adopted by the State Duma of the Federal Assembly, has rejected it by its own decree in view of the unacceptable nature of certain provisions.

It is proposed that the State Duma make the following changes and additions to certain provisions of the law as rejected by the Federation Council.

**Proposals of the Federation Council for Changes and Additions to Certain Provisions of the Federal Law "Changes and Additions to the Law of the Russian Federation 'The Privatization of State and Municipal Enterprises in the Russian Federation'"**

1. In Article 3 as worded in the new edition of the Law of the Russian Federation "The Privatization of State and Municipal Enterprises in the Russian Federation":

—in paragraph 3 of clause 1, after the words "in the currently active State Privatization Program," add the words "as approved by federal law";

—in paragraph 7 of clause 2, replace the words "the distribution of funds by facilities" with the words "the distribution of funds from the privatization of facilities";

—add to the article clause 5 with the following content:

"Legislative (representative) bodies of subjects of the Russian Federation and bodies of local self-government annually review reports on the results of the realization of the corresponding privatization programs."

2. In Article 4:

—in paragraph 1 of clause 1, after the words "State Property Committee of Russia)," add the words "performs the functions of managing and disposing of federal property as commissioned by the Government of the Russian Federation,";

—add a paragraph with the following content after clause 1 paragraph 1:

"The State Property Committee of Russia has the status of a Federal Ministry";

—in paragraph 4 of clause 1, after the words "out of the funds of the Federal Budget," add the words "and the funds obtained from privatization";

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—in paragraph 4 of clause 2, replace the words "before the State Duma of the Federal Assembly of the Russian Federation" with the words "before the Government of the Russian Federation";

—in paragraph 9 of clause 2, after the words "the Russian Federation," add the words "shares of stock (shares, portions) that are under federal ownership";

—add to clause 2 after paragraph 9 a paragraph with the following content:

"acts as the founder of business entities (companies);";

—add to clause 2 after the last paragraph a paragraph with the following content:

"The State Property Committee of Russia carries out its activity in accordance with a statute approved by the Government of the Russian Federation";

—in paragraph 2 of clause 3, after the word "they" add the words "manage and."

3. In Article 5:

—in paragraph 4 of clause 1, after the words "subject of Russia," add the words "and is deputy head of the administration (chairman of the government) of the subject of the Russian Federation";

—word paragraph 5 of clause 1 as follows:

"The activity of the committees is financed out of the funds that are obtained from the privatization of state and municipal enterprises that are under the ownership of the corresponding subjects of the Russian Federation and municipal formations. The activity of the committees for the performance of the functions to manage state property are financed out of the funds of the federal budget and the budgets of the corresponding subjects of the Russian Federation and the municipal formations";

—add to clause 2 a paragraph 9 with the following content:

"act as founders of business entities (companies)."

4. In Article 6:

—word the title of the article as follows:

"Article 6. The Russian Federal Property Fund of the State Property Committee of Russia";

—add to paragraph 1 of clause 1, after the words "The Russian Federal Property Fund," the words "of the State Property Committee of Russia";

—word paragraph 4 of clause 1 as follows:

"The Fund may create its own divisions in the subjects of the Russian Federation and municipal formations";

—word paragraph 2 of clause 2 as follows:

"temporarily, until the moment of sale;

holds the documents belonging to the Russian Federation that attest to the right of ownership of enterprises, shares (portions, shares of stock) in the capital of business entities (companies) transferred to it by the State Property Committee of Russia";

—paragraphs 4 and 6 of clause 2 are deleted;

—clause 4 is worded as follows:

"The Russian Federal Property Fund operates in accordance with a statute approved by the Government of the Russian Federation, and is accountable to the State Property Committee of Russia."

5. In Article 7:

—delete paragraphs 4 and 7 of clause 2;

—word clause 4 as follows:

"In subjects of the Russian Federation and municipal formations where property funds have not been created, their functions are performed by the corresponding committees for property management."

6. In clause 1 of Article 9, replace the words "25.5 percent" with the words "25 percent" (retaining the previous norm).

7. In clause 2 of Article 12, replace the words "by the State Duma of the Federal Assembly of the Russian Federation" with the words "by federal law."

8. In Article 14:

—word paragraph 2 of clause 6 as follows:

"The deprivation of an enterprise of the status of a legal person is not permitted in privatization (with the exception of cases of its dissolution with the subsequent sale of its assets)";

—in clause 7, replace the words "the corresponding legislative (representative) body" with the words "administration (government) of the corresponding."

9. In clause 7 of Article 20, after the words "according to their residual value," add the words "in accordance with a statute approved by the State Property Committee of Russia."

10. In paragraph 3 of clause 1 of Article 30, delete the word "grossly."

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***State, Central Bank on Relations With Country's Banking System**

*964E0183B Moscow BIZNES I BANKI in Russian No 43, October 95 pp 1,2*

[Article by N. N. Lunev, deputy chairman of the board of Srednevolzhskiy Commercial Bank, and V. A. Moskvin, candidate in economic sciences: "Banks Within the Web of Russian Contradictions"]

[FBIS Translated Text] It is generally customary to speak of a unified Russian banking system. Today the commercial banks, which have not yet recovered from the August crisis, are preparing for the next such wave, which may possibly be even stronger. It has become evident that the efforts of the banking community to strengthen confidence of banks in each other are not yielding serious results, as was noted in the resolution of participants in the conference in the ARB [Association of Russian Banks] on 28 September of this year. The members of the ARB hope to restore the normal functioning of the Russian banking system through immediate realization of a set of measures. Specifically, they propose implementing reduction, albeit temporary, of the standards of mandatory reserves of credit resources and the refinancing rates of the CBRF [Central Bank of the Russian Federation] to an economically justifiable level. They cite an important measure as being also the activization and increased effectiveness of the work of the ARB on the basis of full utilization of the intellectual potential and energy of the banking community, including by means of creating within the association public commissions on basic directions of banking activity.

There is no doubt that the proposed measures may bring benefit to the banking community, but the question is: Will they restore "normal" functioning of the Russian banking system? Not to mention the question of whether the functioning of the Russian banking system prior to August of this year may be considered as being fully normal. In order to try to find answers to these questions, let us examine certain aspects of interaction of the system of Russian commercial banks with the external environment and certain relations between the elements of the system itself.

The first aspect is the relation between the common interests of the banking community and the national interests of Russia. Here the situation is poor, no matter how one looks at it. First of all, Russia does not yet have a formulated and world-declared clear-cut listing of its national interests. Whether the country's leadership does not want to do this, or whether it cannot—that is another question. However, the fact remains that the state has no such list and no appropriate position in regard to the national banking system. And since that is the case, the government and the CB [Central Bank] have a free hand to engage in any experiments, with the total absence of responsibility, since, it would seem, there is nothing to violate. However, it is specifically national interests which must be the moral basis for formulation of the Russian budget.

One might object, saying that there is a law which contains legal standards regulating various types of activity. Yes, there is a law, but, without touching upon its quality, we will note that it merely establishes a legal space for realization of national interests, but does not define the interests themselves. In other words, it regulates Russia's movement toward a goal which has not been defined. A paradox? Yet that is the way we live, and we even speak of the normal functioning of the banking system!

The second aspect is the state's management of development of the national banking system. All the known functions of management in this case are reduced to only two: Regulation and control. The situation is complicated by the fact that fulfillment of even these functions is aimed at realization of the state's general fiscal policy. There is no hint of real concern for the development of commercial banks, and no efforts at application of current methods of economic stimulation.

It is no secret that banks lose their capital under conditions of inflation. Formally, it grows in time, but in essence the rate of growth of bank assets lags behind the actual rate of inflation. If the state really cared about the national banking system, under the current conditions it would be justified not only in reducing the standards of mandatory reserves, but also in reducing the tax on profits, which in fact is removing capital from the banks. Moreover, if taxes were reduced, at least for a certain period, it would be permissible to tie this in with assigning the banks the task of performing mandatory increase of their financial might. Thus, it would be possible to hinder the process of deterioration of capital, of which the state officials are so afraid. In the case of realization of such a normative approach to the goal-oriented development of commercial banks, Russia could already in a few years get an incomparably stronger national system, which would have the strength to become the locomotive to pull our country's industry out of its financial crisis. The authorities must understand that the road to the club of the most powerful economic states lies through occupied positions in the world economy. When on the list of the first 100 world banks there will be 5-10 Russian ones, then our country will have to be reckoned with not merely for its military arsenals. However, it is specifically in this direction that the CB is doing nothing at all.

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Therefore, we have sufficient reason to presume that, in present-day Russia, the CB is in fact fulfilling the functions of one of the power departments. Perhaps it is specifically this fact which explains the informational secrecy of the CB, as well as the obvious presence of its own interests, which are not directly tied with the interests of the country's development. It is already no secret that 95 percent of the $10 billion of its reserves were placed by the CB management into short-and medium-term treasury bonds in the USA and Germany. In fact, the Bank of Russia is engaging in direct crediting of the economies of the USA and Germany. This is an apparent and surprising phenomenon: With one hand we are taking credits in the West, and with the other—we are using them to credit the West. The delicacy of the situation lies in the fact that the actual rates of dollar inflation exceed the interest which we are receiving in the Central Bank. That is, Russian capital, working for foreign states, is becoming devalued. Of course, these funds, or at least a portion of them, could be handed over for management to the Russian commercial banks, so that they would work in our economy, increasing the stability of our banking system. But the Central Bank of Russia, evidently, does not need this.

The quality of explanations which the Central Bank gives to Russian society also evokes no satisfaction. For example, in the CB press release, "Policy of Management of Currency Reserves of the Bank of Russia," distributed on 5 October 1995, there is an obvious contradiction. The first paragraph contains the following words: "The general economic tendencies of the first half of 1995, characterized by a notable decline in the rates of inflation and a real strengthening of the ruble...". Yet later on this same page it is noted that "the reduction of the monetary base under conditions of continuing high inflation in connection with the sale of currency from reserves of the Bank of Russia, may lead to aggravation of the problem of non-payments in the economy." And so, is it "a reduction in the rates of inflation," or "continuing high inflation?" The difference, after all, is a principle one, and it is unlikely that this is simply a typographical error. Sooner, it is the result of the absence of a clear-cut strategy in the work of the CB, oriented toward an adequate appraisal of the situation and its consistent change in the direction of realization of our national interests. Thus, in present-day Russia there is the problem of radically reforming the CB in the direction of transforming it into a full-fledged organ of state administration, operating within the channel of Russia's national interests.

The Central Bank must become a bank for the Russian banking system, and not operate for its own or someone else's interests, which differ from our rudimentary national ones.

The third aspect is the Russian business environment. This is that environment in which our commercial banks operate. In it we may isolate the following significant factors: Effective legislation, sub-legal statutes, a system of standards, a system of organization of labor, and customs of business practice.

How and by what Russian legislation differs from the legislation existing in the developed European states or the USA—this need hardly be explained to anyone today. Since the time of the October revolution of 1917, Russians are now living already under a fourth constitution, while many citizens of the USA, for example, believe that their basic law has been in existence forever.

The sub-legal statutes, the various instructions and directives of Minfin [Ministry of Finance], the CB, Gosnalogsluzhba [State Tax Service] and other departments, constantly force Russian citizens to turn everything upside down, while the bureaucrats are not held accountable for this. Just let the analogous official organizations in the West try to pull off something of the sort! There too they have a bureaucracy, but it does not have the power over society which ours does, and it is far from being unpunishable.

Today, anyone who will take the trouble to do so accuses the commercial banks of the fact that they are using short-term money for long-term crediting. But is it their fault if the domestic economic situation does not allow either the population or the enterprises to invest money into the financial structure for a long term? And the reshuffling with issuance of sub-legal statutes is not the least to blame for this. Without putting a stop to this disgrace which the bureaucrats are allowing, we cannot create real conditions for long-term crediting and improve the work of the entire banking system.

In a normally functioning economy, all work is performed in accordance with standards: International, national, sectorial, and standards of enterprises. As a result, all goods and services have the necessary level of quality. Bank services, as well as the fulfillment of strictly intra-bank operations, must also answer to standards. This also holds true for the interaction between banks and their relations with other organizations. Without establishing and adhering to standards, there can be neither quality nor effectiveness of banking activity.

If we seriously analyze the systems of organization of labor at Russian enterprises, including in banks, it will turn out that much must be done here to ensure normal work of individuals. For example, in practically

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no Russian bank is there a strong system of in-house documentation regulating the primary directions of functioning of the bank. Few have statutes and official instructions which clearly specify who, what, to whom, when and in what form business is conducted in regard to transfers or receipts. Yet not a single bank of international class can operate without such documents. To create such a system is a considerable undertaking. However, it also yields significant economy of labor expenditures in fulfillment of operations. And also, we should consider increasing the quality of services provided to clients.

Finally, as concerns the customs of business practices "there" and here, the comparison will clearly not be in our favor.

In summarizing the third aspect, we must admit a significant difference of the business environment in the developed countries as compared with Russia's. They are about as different as water and air. Therefore, when Western consultants begin to teach our bank associates, this appears interesting, because they themselves can neither fly nor swim in our environment. Yet foreigners will teach, since our bankers are paying for this. Especially since, after giving such instruction, the foreigners become experts on Russia at home, which has its advantages for them.

Thus, we may affirm that the Russian banking system has found itself in a bundle of contradictions. There are contradictions in relations with the external environment. There are also inter-bank problems and a Russian business environment which is not very favorable. Therefore, to hope that we will be able to establish normal functioning of the Russian banking system by means of receiving certain easements from the CB and by means of creating several public commissions—this is more than illusion. The road to effective operation is much more difficult, and requires real consolidation of means and intellect.

***Trade Union Leader Stresses Need to Develop Political Structure**

*964F0282A Moscow SEGODNYA in Russian 19 Oct 95 p 2*

[Article by Viktor Khamrayev: "Leader of FNPR Proposes That Trade Union Bosses Should 'Begin to Formulate Political Structure'; All-Russia Strike Replaced by Meetings and Marches"]

[FBIS Translated Text] The birth of political organization of the trade unions should be expected by the end of next year. In any case, the leader of the Federation of Independent Trade Unions of Russia, Mikhail Shmakov, speaking yesterday before the federation's general council on the occasion of the 5th anniversary of the FNPR [Federation of Independent Russian Trade Unions], among the 10 strategic tasks of the organization, presented the thesis that it is necessary to "begin formulating a political structure."

In this regard, Mr. Shmakov even proposed that the regular congress of the Federation of Independent Trade Unions be held at the end of 1996, instead of in 1997 as planned. The need for having our own party, explained the leader of the trade union bosses, has emerged in connection with the "direct participation of the trade unions" in the current parliamentary elections. Since the political union of defenders of the rights of hired workers with the industrialists, according to Mr. Shmakov's logic, has proven to be possible only because all of us are presently "faced with the task of survival." But when (after change in the course of economic reform), the "task of development" emerges, the FNPR, believes its chairman, will begin to oppose the directors. Then the trade unions will need their own political organization.

Then again, Mr. Shmakov explained to our SEGODNYA correspondent that he is speaking not of a party, but specifically of a political structure. Referring to the international experience of the trade union movement, Mr. Shmakov proposed that such a structure may be "a committee for political analysis and action"—a unique middleman between the trade union associations and the parties, through whose political interests it lobbies for the interests of the trade union. At the same time, the leader of the FNPR does not exclude the possibility that "in time," "the committee" will turn into a party, as for example a labor party, as was the case in England. However, Mr. Shmakov is convinced that direct entry of the trade unions into the political power structures is "nonsense." At the same time, Mikhail Shmakov believes that the "unionist path of development," which presupposed the distancing of the trade unions from politics, is unacceptable.

The FNPR will evidently undertake a detailed development of its political structure after the elections to the State Duma. Tomorrow the independents will ceremoniously celebrate the 90th anniversary of the Russian trade unions. And on 30 November the action of collective protest in all regions of Russia will be held. There will be meetings, marches, assemblies, and in some places strikes are expected, calling for an end to unemployment and repayment of indebtedness on wages. The all-Russian general strike did not come to pass.

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***Survey on Citizens' Household Property, Economic Status**

*964E0179A Moscow SEGODNYA in Russian 26 Oct 95 p 6*

[Article by Marina Krasilnikova, All-Russia Center for the Study of Public Opinion: "How Do We Measure a Family's Wealth: On the Household Property of the Rich and the Poor"]

[FBIS Translated Text] The extent of household property sometimes characterizes a family's wealth better than monetary income data. In an analysis of consumer behavior it is first of all important to know how much money people spend rather than how much they earn or are paid in wages. One can get a picture of this from a description of already acquired property, the character and type of which define current and future consumption.

We call families that have only a few items from the list poor, and those that have almost everything—rich. The items included in this selection must meet a number of requirements, namely:

the probability of the existence of this item in the household must increase as the family's material situation improves;

there should be a certain, more or less set, order of appearance of items in the family as its material situation improves (for instance, a video camera is most likely to appear in the family after a VCR has been purchased), that is, these goods should in a way reflect the development and variety of a family's needs as its material wealth grows;

it does not make sense to include in the selection goods that already exist in practically all families, since in this case the differences will be mostly of a qualitative nature;

the list of goods must consist of items that have a different degree of being in widespread use; that is, it must include both items that one finds very often in a family, and relatively rare ones, in order to ensure the ability to clearly differentiate families.

To construct such a selection of goods, the author used data of the "Monitoring" survey conducted in March 1995. All in all, information was obtained on the presence in Russian families of 35 different items, such as: a refrigerator, washing machine, vacuum cleaner, sewing/knitting machine, color television set, black and white television set, standalone freezer, microwave, stereo system or record player, audio tape recorder/audio tape player, video tape recorder/video tape player, furniture set, car, two or more cars, car insurance, garage, motorcycle or motor scooter, dishwasher, mixer, electric brazier/electric grill, gas/electric water heater, telephone, answering machine, radio alarm clock, compact disk player, electric drill, photographic camera, video camera, satellite dish/antenna, cable decoder/subscription to cable television, personal computer, CD-ROM for personal computer, piano or grand piano, country house or cottage, and dacha (a house on a garden plot or in a village).

The list of items is quite extensive, and not all of them are suitable for inclusion in the property set. Free "access" to ownership of some of them may be impeded by their unavailability in some places and does not depend directly on a family's material situation. Among such items are, for instance, a telephone and answering machine, as well as a water heater.

It does not make sense to include a refrigerator and washing machine in the set, since practically all families have them (on average 97 and 87 percent, respectively), which means that they have little correlation with the family's material situation. In such cases, quality (the brand, and whether it is domestic or foreign-made) is more important. The number of families that have a refrigerator and a washing machine is approximately the same in the poor and the rich category—94 and 97 percent; the same applies to washing machines—88 and 86 percent. An "automatic washing machine," however, could be a good candidate for inclusion in the set, since it is far less common and its presence does have a strong correlation with the level of material wealth.

On the surface, the most expedient thing would be to include traditional items from the "gentleman's set" of attributes of wealth and affluence of the past—a car (second car, garage) and a dacha (garden plot dwelling, village house). In years past, possession of such items had greater correlation with a family's "status" rather than with "income" characteristics. The breakdown of the old hierarchical system of society that has taken place as a result of perestroyka and the emergence of new rich and the impoverishment of formerly wealthy families has resulted in continuing possession of a car or a dacha in a family very frequently having no correlation with the current level of its financial situation. Analysis of the data shows than 80 percent of the pool of cars were purchased more than three years ago. Almost one in six families of low-income respondents has a car (the only difference is that in high-income families one in three cars was purchased within the last three years, while in low-income families—one in 15). One in five families has a dacha, or a garden plot dwelling, or a village house.

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In the end the author decided to limit herself to a set of 10 items, which includes both widely common (color television set, vacuum cleaner) and relatively rarely encountered (video camera, microwave) items—household items that have been in the consumer market for a long time (decades) and relatively new ones (see table 1).

**Table 1**

Presence of Durable Goods (as a Percentage of Respondents)

| In your home, do you have.... | 1993, May | 1995, March |
|---|---|---|
| Vacuum cleaner | - | 75 |
| Color television set | 68 | 71 |
| Mixer | 23 | 27 |
| Electric drill | 27 | 29 |
| Photographic camera | 30 | 32 |
| Freezer | 8 | 6 |
| Microwave | 2 | 3 |
| Video tape recorder | 5 | 17 |
| Video camera | 1 | 1 |
| Compact disk player | - | 6 |
| None of the above | - | 11 |

The average Russian family has only 2.8 items on this list (however, at the same time more than half of respondent have less than two items in the family or none at all; the latter comprise 11 percent).

Our analysis enables us to divide families into four groups, which substantially differ by composition of household property, that is, the level of their current material situation.

The "poorest" families (52 percent of all respondents) most often have only a vacuum cleaner and a color television set. Families that have three or four items from the set (31 percent) most likely would have a camera, electric drill, or mixer. At the level of five to six items (13 percent), the most likely items to be added are a video tape player, compact disk player, or freezer. A household that would have all 10 items on the list is an extremely rare phenomenon: Only one (!) such family was found in the monitoring sample. At the same time, of the most wealthy families (more than seven items), 49 percent have freezers, 45 percent—a microwave, 93 percent—a VCR, 41 percent—a compact disk player, and 24 percent—a video camera.

This grouping reflects very well the level and differentiation of family wealth. Table 2 shows the data of distribution of respondents' answers to various questions characterizing people's wealth according to the household property saturation indicator we have constructed.

**Table 2**

Characteristics of Wealth (as a Percentage of Respondents in Each Column)

| Indicator | Less than two items | Three-four items | Five-six items | More than seven items | No answer |
|---|---|---|---|---|---|
| Household property saturation level | | | | | |
| Per capita income | | | | | |
| low | 26 | 15 | 10 | 3 | - |
| medium | 62 | 58 | 47 | 31 | - |
| high | 11 | 23 | 39 | 52 | - |
| no answer | 2 | 5 | 4 | 14 | - |
| normal income* | | | | | |
| high | 14 | 21 | 34 | 45 | - |
| medium | 60 | 62 | 54 | 33 | - |

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| Characteristics of Wealth (as a Percentage of Respondents in Each Column) | | | | | |
|---|---|---|---|---|---|
| low | 25 | 14 | 11 | 16 | - |
| no answer | 1 | 3 | 1 | 1 | 6 |
| How would you appraise your family's current material situation? | | | | | |
| very good | 0 | 0 | 1 | 6 | 0 |
| good | 2 | 5 | 5 | 17 | 0 |
| average | 36 | 47 | 55 | 55 | 23 |
| bad | 42 | 38 | 30 | 14 | 24 |
| very bad | 18 | 10 | 5 | 4 | 36 |
| scale average | 3.77 | 3.53 | 3.36 | 2.91 | 4.14 |
| What could you say about your family's material situation? | | | | | |
| we live well, with no particular concerns | 0 | 1 | 2 | 10 | 0 |
| we live more or less okay | 22 | 42 | 55 | 48 | 2 |
| we barely make ends meet | 59 | 49 | 37 | 24 | 97 |
| we live below the poverty level | 14 | 5 | 1 | 5 | 0 |
| How would you appraise your family's property? | | | | | |
| we have practically everything; all things are new and modern | 2 | 3 | 7 | 20 | 0 |
| we have everything we need; everything is in good condition | 22 | 45 | 66 | 64 | 22 |
| old things*, long due for replacement | 54 | 44 | 22 | 14 | 67 |
| we have very few things, and all are in poor condition | 18 | 3 | 2 | 2 | 0 |

*—Answers to the question: "How much money does your family need to have what you perceive as a normal standard of living?"

Thus, the poorest families most often appraise their financial situation as "bad": They "barely make ends meet," and at home "all household items are old and should have been replaced a long time ago." The average per capita income in such families amounted in March 1995 to 141,000 rubles [R] a month. Respondents from the wealthiest families say that their material situation is "average" or "good;" most often, their standard of living is "more or less decent," and in their home they have "all the necessities and all household items are in good condition." The average per capita income in this group, which comprises about 4 percent of Russia's population, is about R506,000 a month.

We were able to make several more interesting observations. First, it turned out that the greatest number of respondents who did not answer the question on the family's monetary income are among the wealthy. In this group almost one in six did not answer this question, while in other groups the number does not exceed 5 percent. The structure of household saturation with property of those respondents who did not answer the question on monetary income most resembles the characteristics of the most wealthy families.

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Simple calculations show that the 3.6 percent of those who did not answer the question on income in the March 1995 monitoring, and the current extremely high income differentiation in Russian society taking this factor into account, may increase the average per capita monetary income indicator by 5-8 percent for the entire sample.

Second, it turned out that those who did not answer the question on the presence of various household items in the household are the poorest, whose average per capita income amounted in March 1995 to R133,000 per family member a month (R187,000 on average). The self-appraisal of respondents' material situation in this group is the lowest (see Table 2). Besides, unlike the question on monetary income, the question on the composition of household property was answered by practically all the respondents (the number of nonrespondents in the March survey was 0.5 percent, or nine persons).

Thus, the opinion of the richest respondents can be registered more effectively if we use as the criterion of material wealth the household property saturation indicator instead of average per capita monetary income.

With the current significant regional differentiation of income and consumer prices in Russia, the household property saturation indicator becomes very useful for regional comparisons of the level of material wealth.

Residents from Moscow and St. Petersburg are much wealthier than the rest of the Russian population. Slightly better than average is household wealth among residents in the south of Russia, Siberia, and the Far East. The poorest live in the northern part of the country and the Urals.

The same indicator allows us to trace the correlation between people's property situation and their perceptions of their place in the social hierarchy in the past, present, and future.

In this analysis, of particular interest is not so much the obvious fact that the better people's material condition, the more confident they feel in society, but rather the dynamics of self-appraisal. From the Table 3 data one can see that the poor, as a rule, do not expect any substantive improvement for themselves in the future, while the wealthiest are in a very optimistic mood. At the same time, the fact that even the rich believe that over the past two years their social status has declined—not to mention the poor!—is cause for alarm. Those who did not answer the question on property—they are in a way "poor optimists"—also deserve attention: While appraising their current situation as very modest, they are counting on substantially improving their social status very soon.

**Table 3**

Self-Appraisal of Own Social Status Depending on Household Property Saturation (On a 10-Point Scale, With 1 Being the Highest and 10 Being the Lowest, March 1995)

| Year | Less than two items | Three-four items | Five-six items | More than seven items | No answer | Average |
|---|---|---|---|---|---|---|
| 1993 | 7.1 | 6.4 | 6.0 | 5.8 | 7.6 | 6.7 |
| March 1995 | 7.6 | 6.7 | 6.2 | 6.1 | 7.8 | 7.1 |
| 2000 | 7.5 | 6.5 | 5.9 | 5.5 | 6.4 | 6.9 |

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The population's sociopolitical orientation, their appraisal of the current situation in the country and the prospects for its development—all this is to a considerable extent a projection of the material conditions of their everyday life, the degree of wellness or lack thereof in their family life. For instance, there are twice as many supporters of continuing market reforms in Russia among the "rich," and twice as many supporters of halting them among the "poor" (see table 4).

**Table 4**

Respondents' Attitude to Market Reforms (As a Percentage of Respondents by Column)

| In your opinion, market reforms currently.... | Less than two items | Three-four items | Five-six items | More than seven items |
|---|---|---|---|---|
| Should be continued | 18 | 32 | 41 | 45 |
| Should be halted | 37 | 24 | 20 | 22 |
| No opinion | 45 | 44 | 39 | 33 |

However, the actual party and political preferences of people with different levels of material wealth are much less differentiated than could be expected based on the election campaign speeches of party leaders in Russia (see table 5).

**Table 5**

In Your Opinion, Which of the Parties Listed Below Best Expresses the Interests of People Like Yourself (In Correlation to Material Situation: As a Percentage of Respondents by Column; March 1995)

| Party, bloc | Less than two items | Three-four items | Five-six items | More than seven items | Average |
|---|---|---|---|---|---|
| Agrarian Party of Russia | 3 | 2 | 3 | 0 | 2 |
| YABloko | 5 | 10 | 11 | 11 | 8 |
| Democratic Choice of Russia | 4 | 4 | 2 | 11 | 4 |
| Democratic Party of Russia | 1 | 0 | 1 | 1 | 1 |
| Communist Party of the Russian Federation | 11 | 6 | 5 | 9 | 9 |
| Liberal Democratic Party of Russia | 8 | 7 | 5 | 7 | 7 |
| Party of Russian Unity and Accord | 3 | 2 | 4 | 2 | 2 |
| Women of Russia | 6 | 8 | 4 | 3 | 6 |
| Derzhava (Great Power) | 2 | 3 | 3 | 2 | 2 |
| People's Freedom Party | 4 | 4 | 6 | 4 | 4 |

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| In Your Opinion, Which of the Parties Listed Below Best Expresses the Interests of People Like Yourself (In Correlation to Material Situation: As a Percentage of Respondents by Column; March 1995) | | | | | |
|---|---|---|---|---|---|
| Do not know of such/No such party | 26 | 24 | 29 | 23 | 26 |
| No opinion | 26 | 25 | 23 | 23 | 25 |

As one can see, the share of supporters of communist-patriotic bloc parties is about the same among the poor and the rich. Likewise, Zhirinovskiy's supporters are equally represented among people with different levels of material wealth. Parties of the democratic spectrum, however, frequently have more supporters among the high-income stratum of the Russian population: This is true first and foremost of Yavlinskiy's and Gaydar's parties. Women of Russia lose their electorate among the high-income part of society.

***Decree on Federal Law on Increase in Minimum Pension**

*964E0175A Moscow ROSSIYSKAYA GAZETA in Russian 28 Oct 95 p 6*

[Text of State Duma Decree: "On the Federal Law, 'On Increasing the Minimal Amount of Pensions, Order of Indexation and Re-Computation of State Pensions in the Russian Federation'," signed by Chairman of the State Duma of the Russian Federation Federal Assembly I. P. Rybkin in Moscow on 13 October 1995, No 1193-I GD]

[FBIS Translated Text] The State Duma of the Russian Federation Federal Assembly **hereby decrees:**

1. That the Federal Law, "On Increasing the Minimal Amount of Pensions, Order of Indexation and Re-Computation of State Pensions in the Russian Federation," shall be adopted.

2. That the said Federal Law shall be forwarded to the Federation Council of the Russian Federation Federal Assembly.

[Signed] Chairman of the State Duma

Federal Assembly of the Russian Federation
I. P. RYBKIN

Moscow

13 October 1995
No 1193-I GD

***Decree on Federal Law on Timely Payments of Pension**

*964E0175B Moscow ROSSIYSKAYA GAZETA in Russian 28 Oct 95 p 6*

[Text of State Duma Decree: "On the Federal Law, 'On Measures for Ensuring Timely Payment of Pensions in the 4th Quarter of 1995'," signed by Chairman of the State Duma of the Russian Federation Federal Assembly I. P. Rybkin in Moscow on 13 October 1995, No 1139-I GD]

[FBIS Translated Text] The State Duma of the Russian Federation Federal Assembly **hereby decrees:**

1. That the Federal Law, "On Measures for Ensuring Timely Payment of Pensions in the 4th Quarter of 1995," shall be adopted.

2. That the Government of the Russian Federation, within 2 week's time, shall develop a comprehensive plan of measures for bringing the Russian Federation state system of pension provision out of crisis.

3. That the said Federal Law shall be forwarded to the Federation Council of the Russian Federation Federal Assembly.

[Signed] Chairman of the State Duma

Federal Assembly of the Russian Federation
I. P. RYBKIN

Moscow

13 October 1995
No 1139-I GD

***U.S. Russian Officials View Foreign Investment**

*964F0207A Moscow NEZAVISIMAYA GAZETA in Russian 17 Oct 95 p 4*

[Article by S. Kashlev: "Tax Reforms in Russia"]

[FBIS Translated Text] **Problems of Attracting Foreign Capital in the Russian Economy**

The problem of attracting foreign investments occurred simultaneously with the appearance of the market economy in Russia and continues to be a pressing problem which means that it is still unresolved.

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As evidenced by observations of western experts, the first wave of foreign investments in the Russian economy has already occurred. Active investment proposals have been replaced with a definite wait-and-see policy. The country, capable of attracting $10-12 billion a year in foreign investments, has difficulty getting $1-2 billion. At the same time, about 78 percent of these investments are made in the fuel and power engineering complex and 7 percent more in retail trade and public catering. It is apparent that all of the others, primarily the production branches of the Russian economy, create much less interest among foreign investors. There is a whole series of reasons for such behavior. It is both the high monopolization of the economy in all leading branches of industry and the weakness of the legislative base in combination with incapacity of government structures and, finally, the highly complex and ineffective taxation system.

The roundtable held last week at "Spassohouse," residence of the United States ambassador in Russia, was devoted specifically to the resolution of that problem. The dialogue on questions of taxation, which included the participation of Sergey Shatalov, deputy minister of finance of Russia, and Jan Kalitski, authorized United States representative on issues of economy and trade with countries of the former [as published] CIS, was held under the aegis of Chernomyrdin's Gora Commission. At the meeting it was noted that as long as Russia is not ready to compete with other countries for foreign investments inasmuch as it has not created favorable conditions for receiving them, its investment rating is extremely low (53d place out of 56 as rated in international statistics). Therefore adoption of the new draft tax code, even its first two parts, creates realistic hope that this situation may be changed for the better. It was noted that if these legislative enactments meet world standards, then on their basis it will subsequently be possible to design a perfected tax system in Russia. The demands being made on future tax legislation are understandable and self-evident to everyone. The tax system must be stable, transparent, predictable, and just. In addition to that it is necessary for it to allow the creation of clear-cut administrative management and a favorable investment climate. The question is not what must be done but how fast and in what stages can it be attained. Much here will depend on the position of the future Russian parliament.

Just what were the specific proposals made by the U.S. side? They can be separated into two large groups.

First of all the taxation system can satisfy all of the established requirements only if the levying of taxes is designed primarily to suit the principal mechanisms of the market economy, at the same time performing functions which have to be incorporated in them. Thus the levying of one of the most complex and at the same time one of the most important taxes of the state budget—the value-added tax, must be brought as close to the European standard as possible; that is, the tax must be levied only on additional value which is actually created in the process of production, without consideration of such types of various additional expenditures as fines and penalties, which have no connection with the product that is produced. In addition, in Russian tax legislation it is accepted that the law goes into force not from the moment it is adopted by the higher organs of authority but only after it accumulates an abundance of instructions, letters, and directives of the tax inspectorates concerning peculiarities involved in its collection, registration, calculation, and those numerous exemptions and concessions which complicate its collection so much, decreasing or deforming the tax base. All this in light of the fact that certain tax rates are sufficiently high even by European standards. Such a system does not promote honest activity by private owners, prompting them to dodge taxes and, along with the high rates of inflation and short-term bank credits at a high rate of interest, discourages any interest among foreign investors to invest money in long-term industrial projects. There is no doubt that proceeding from such principles it is necessary to repeal all taxes of a non-market nature. The tax paid on total gain and not profit, for instance, must be eliminated. As far as the profits tax itself is concerned it is also advisable to make substantive changes in its mechanism of depreciation allotments, as well as allowing liberalization in the shifting of losses to the future, and authorization of all deductions necessary for stable development of production. The proposal of a number of U.S. experts on the taxation of holding companies is of interest. They believe that in levying the profits tax the main and subsidiary enterprises must be unified in one group. That will exempt the turnover within the group from taxation, which will allow the totaling of its profits and losses, and that is highly advantageous for investors. At the same time the new list of federal regional and local taxes should be narrowed. All of that is fully confirmed in practice. Thus, on the basis of statistical data on the collection of taxes in various regions of Russia, it is possible to see that more than 99 percent of the levy is made up of the six principal taxes, whereas the remaining more than 30 taxes account for just 1 percent. It turns out that even for the government expenditures on organizing collection of a number of the minor taxes are many times higher than the proceeds from collecting them. Therefore proposals coming from the U.S. side concerning the amalgamation of certain taxes having the same base, appear to be highly rational.

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Second, the government tax collection system itself is in need of fundamental reform—both its mechanism and legal aspects. From the legal viewpoint the basic concepts and terminology of tax legislation must be presented in a clearer and more comprehensive manner. After all, cases are frequently encountered when the defendant, the court, and the tax agencies interpret the same regulation in different ways. The tax collection mechanism is also in need of perfection, since its main task is not only control over the fulfillment of their tax obligation by citizens, but also the protection of their rights. For that purpose it will be possible to create tax courts following the European example. The same applies to the mechanism of deferments and the guaranteed return with interest of illegally levied taxes. Here it is likewise necessary to clearly establish the powers of authority at various levels in the levying of taxes into the different budgets. It should be noted that most of the western entrepreneurs would like to see a less rigid form of liability introduced in Russia for tax law violations if they are committed without premeditation or due to negligence.

In conclusion it only remains to note those concrete steps which are being planned by participants of the meeting in realizing this program..

As a start, a working group consisting of U.S. experts and agents of the state tax service of Russia and entrepreneurs of the private sector under the chairmanship of Vyacheslav Potapov will be created as early as this month. Its main task is detailed discussion of the size, calculation, and collection of various taxes as well as study of all problems associated with taxation. As a result, our legislators will be able to get rational proposals and competent consultations on perfection of the taxation system in Russia. Individual details of the first two parts of the new draft tax code, which will be submitted for discussion within the State Duma of Russia in the immediate future, may also be elaborated further.

## *State Customs Committee Chairman on Customs Service

*964E0177A Moscow EKONOMIKA I ZHIZN in Russian Oct 95 No 42, p 28*

[Interview with Valeriy Fedorovich Kruglikov, first deputy chairman of the RF State Customs Committee, conducted by N. Palkina on the occasion of Customs Officer Day, under the rubric "Customs News": "Regulate Foreign Economic Activity Without Middlemen"; place and date not given]

[FBIS Translated Text] **Under the edict of the president of Russia, 25 October is observed as Customs Officer Day. On holidays devoted to occupations, the people responsible for the celebration usually not only receive congratulations but also share their plans for the future. The first deputy chairman of the RF GTK [State Customs Committee], V. Kruglikov, answers the EZh [EKONOMIKA I ZHIZN] correspondent's questions about the customs service's role in the structure of market institutions.**

[Palkina] Valeriy Fedorovich, the governmental program entitled "Reforms and the Development of the Russian Economy in 1995-1997" envisions further liberalization of foreign economic activity in accordance with the requirements of the country's adaptation to conditions of a market economy and integration into world economic space. Here the state's regulatory role will be limited by international standards and will be implemented in accordance with the rules of GATT/ITO [General Agreement on Tariffs and Trade/International Trade Organization]. How, specifically, will this be manifested?

[Kruglikov] As a general rule, quantity restrictions on export-import operations are to be abolished. In the near future, a competitive mechanism for determining which exporters will provide deliveries within the framework of the Russian Federation's intergovernmental obligations will be introduced, and as domestic and world prices even out, export duties in 1995-1996 will be reduced and in the future abolished altogether.

As is well-known, even now in an effort to ensure economic efficiency and raise federal budget income, all concessions on import duties, with the exception of those listed in the Russian Federation Law "On the Customs Tariff" and other laws, are eliminated.

This year the government of Russia introduced a uniform minimum import duty rate, raising it to 5 percent for all goods with the exception of a limited number of goods where zero rates are applied. At the same time, the maximum tariff rates on particular imported goods have been lowered, and the spread on import duties has thereby been reduced.

In 1996 the government intends to begin replacing a large number of the rates over 30 percent with domestic excise fees. A continued gradual reduction in import duties is planned for the next 3-5 years; the basis of this will be reducing the weighted average import duty by at least 20 percent by 1998. This year the process of coordinating the excise rates for domestic and imported goods should be completed.

In these conditions, the customs organs are in practice becoming a basic structure regulating foreign economic activity while excluding any middlemen. This means

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abolishing special exporters who were the middle link between the exporter and the customs office.

[Palkina] Plan assignments for replenishing the income part of the budget are being set for customs organs. For 1995 this assignment was set at a total of 42 trillion rubles [R]. But in the course of the current year, duty rates have already dropped and will continue to drop. What do you intend to use to fulfill the obligations you have assumed?

[Kruglikov] Speaking of replenishing federal budget income, in my opinion the main reserve today is to ensure full customs registration of goods, especially imported goods, under the conditions of Russia's Customs Union with Belorussia [Belarus] and Kazakhstan and the situation which continues to evolve with the other CIS countries. The situation involving internal customs transit must be taken under complete control, the customs regimes envisioned by the Customs Code must be mastered, and the customs infrastructure must be created and developed.

We have modest assignments for goods subject to excise fees in the budget for 1995. But the experience of the Western countries suggests that in conditions of joining GATT/ITO where import duties and their rates are regulated by world demands, excise fees become paramount. By the start of next year, we must modify work with them so that in 1996, budget revenue from this category of goods becomes more significant and gradually accumulates. This revenue presently comes to 3-5 percent.

We are also devoting special attention to monitoring the correct application and introduction of the customs tariff which now includes about 1,000 commodity positions; here about 100 of them are applied as combination rates. With the elimination of concessions on foreign economic activity and the further liberalization of this activity, we should expect greater pressure on customs offices in terms of people declaring the wrong customs value, country of origin, commodity code, and regimes. Here our main task is to close these channels of lost payments.

The problem of determining the customs value of goods remains very important. In the first 6 months of the year alone, customs organs recorded about 1,000 importers who registered deals with a plainly understated value. Customs value and currency control departments in the Volga Region, Ural, Far East, and West Siberian customs administrations are working the hardest.

We attach great importance to the order, prepared with the participation of regional customs administrations and customs offices, to [illegible]ibute responsibility for correctly establishing customs value on the vertical: the customs office-the regional customs administration-the Customs Committee. Yet this year we must finish work to create regional bases and contract prices and conduct painstaking training of specialists.

Before the end of this year, we plan to put into operation special electronic programs to allow us to keep a complete record of customs payments received relevant to the category of payments, the commodities list, the country of their origin, and other parameters. Incidentally, this will allow us to conduct a careful analysis of the effectiveness of the customs tariff rates based even on this year's results, and to be absolutely confident that the budget receives the payments accrued.

***Increase in Price of Bread Reported**

*964E0176A Moscow ROSSIYSKIYE VESTI in Russian 28 Oct 95 p 2*

[Article by Yelena Ishkova: "Why Bread Prices Are Rising"]

[FBIS Translated Text] The flour in the bread we are eating today is made from grain of the new harvest and last year's harvest. What will happen when bakeries have to rely solely on this year's grain? How much will our daily bread cost then? Numerous forecasts predict a steep rise in the prices of round and french loaves, and also in the prices of other items. This will create new inflationary momentum.

Instead of trying to read tea leaves, we can look at the calculations of the Ministry of Agriculture and Food. A loaf of top-grade white bread weighing half a kilogram and made from flour of domestic origin and of this year's harvest is expected to cost 2,802 rubles. If the same loaf were to be made with flour from imported grain, it would cost 3,265 rubles. For the sake of comparison, the average price of a white loaf in Russia today is 2,050 rubles.

The calculations of the Ministry of Agriculture and Food completely refute the opinion that the hike in bread prices is due to the exorbitant purchase prices farmers are charging for grain. Although purchase prices have risen, the peasant gets only 750 rubles of the total cost of a kilogram of flour (remember to multiply the price of the half-kilogram loaf by two). This is the maximum price commercial agents will pay. Grain for regional supplies is purchased at a much lower price. After a period of storage in a grain elevator, the same kilogram costs 1,319 rubles. After the grain has gone through the mill, the price rises to 2,416 rubles. Then the overhead costs and profits of the bakery combine are added to this figure. The trade markup is 1,172 rubles. That is how the final figure of 2,802 rubles is derived.

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Experts from the Ministry of Agriculture and Food say that the higher price of bread is due primarily not to the higher cost of the initial raw material—the grain—but to the higher costs of storage, processing, shipping, and baking. These costs are connected directly with the rising cost of energy resources: fuel, heat, and electricity—all supplied by natural monopolies.

Whereas prior to 1991 the amount the peasant was paid for the raw material represented 30 percent of the cost of a kilogram of bread, and the amount received by those who dried, sorted, milled, and transported the grain and baked the bread represented only 13-14 percent of this cost, the present situation is the opposite. The peasant gets 13-14 percent of the total cost, and the others get 30 percent. The portion pocketed by trade has increased perceptibly. Whereas the trade network received 6.3 percent of the cost of a kilogram of bread in 1991, now the trade markup is 20 percent.

Although a loaf of sliced bread once cost 25 kopecks, the price of this staple of our diet is now 8,200 times as high. If this figure were to be used as an inflation index, it would mean that the average specialist who once earned 300 rubles a month should now be earning 2.5 million. Obviously, the people whose income is close to this level have nothing to complain about today.

***Current State of Trade Union Movement Viewed**

*964E0178A Moscow SEGODNYA in Russian 26 Oct 95 p 3*

[Article by Viktor Khamrayev: "The Former 'School of Communism' in a New Political Context; Trade Unions Have Scattered in All Directions and Have Made Friends with Employers in the Hope of Deputy Seats"]

[FBIS Translated Text] We are accustomed to berating trade union activists and trade unions—sometimes for the bureaucratism they inherited from the "school of communism," sometimes for their obsession with strikes, sometimes for their impotence in the "tripartite arrangement" (this is the term labor activists use to refer to the trilateral agreement of the state, employers, and the unions), and sometimes for their craving for power. In short, they are criticized for mutually exclusive properties, but it is useless to look for a paradox here. Today's trade unions in Russia are full of contradictions, and these probably would have stayed "in the shop" for a long time if it were not for the State Duma elections.

To a certain extent, the trade unions have even added something unique to the 1995 campaign. Just think of the Sunday "surprise" analysts and observers got from workers in housing and public utilities and in transportation, who will now continue their fight for seats in parliament, in contrast to, for instance, "Democratic Russia." The internal contradictions inherent in today's trade unions, however, are certain to affect their chances of winning. On the one hand, by entering the campaign they acted as an autonomous political force in the Russian society, but on the other the Russian voter cannot see even a hint of this "autonomous political force." Although there is no question that union leaders (more commonly called functionaries) will win seats in the new parliament, not one of the central labor organizations that was hatched by the Soviet monolith—the AUCCTU—has acquired even the outlines of a political organization.

It would be wrong, however, to blame the trade unions for their lack of success in politicizing their image. It seems clear, after all, that the "high road" of the development and reinforcement of the Russian labor movement lies outside the political sphere. Furthermore, labor leaders insist that they have been forced to enter politics. They believe that the possibilities for influencing the executive branch of government by means of economic struggle and strikes have been exhausted. For this reason, the labor bosses need the legislative body to change the course of reform in such a way that the "fruits of reform will be reaped by the majority of Russians."

Strictly speaking, only the Federation of Independent Trade Unions of Russia (FITUR) claimed to be an autonomous political force. Other central labor organizations—SOTsPROF, the Confederation of Russian Labor (KTR), the Congress of Russian Trade Unions, the National Association of Russian Trade Unions, and the free trade unions (independent of the independent unions)—showed no sign of this until it was time to form election blocs and register them with the Central Electoral Commission.

Only the KTR has adhered to its earlier position, and it appears that it will soon cease to exist for this very reason. The KTR, which was founded in Moscow on 12 April 1995 by seven free trade unions (the Sheremetyevo Flight Crew Union, the Russian Dockworkers' Union, the Independent Trade Union of Russian Miners, and others), called itself an alternative to FITUR on the grounds that all of the members of its unions were hired workers, and not employers and administrators. FITUR accepted even directors and ministers among its members. In other words, the fundamental difference between them was that FITUR saw the government as the opponent of labor, whereas the KTR saw the employer as this opponent. Because of this, the head of the KTR, Viktor Nekrasov, did not join the 1995 election race, saying that participation in government is unacceptable by definition for trade

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unions (this was the precise reason for V.I. Lenin's long-ago clashes with apolitical trade unionists).

The resulting disagreements between Mr. Nekrasov and Chairman Aleksandr Sergeyev of the Independent (Free) Trade Union of Russian Miners (NPGR) were settled when the NPGR withdrew from the KTR and established the All-Russian Confederation of Labor (VKT) with SOTsPROF in Yekaterinburg on 12 August. The VKT did not enter the campaign as an autonomous bloc, but the NPGR did nominate its own candidates for Ivan Rybkin's bloc: Aleksandr Sergeyev on the federal ticket, two candidates on regional tickets, and three candidates in single-seat districts in the Kuzbass.

It is not clear why the Free Miners had to withdraw from the KTR. The confederation charter granted them complete freedom of action, including freedom to participate in government. Mr. Sergeyev apparently had a need for a central labor organization of his own. On the surface, Mr. Sergeyev's parliamentary ambitions are fully in keeping with the image he created for himself as a leader in 1989, during the first miners' strikes in the USSR, and later, at the time of the breakup of the USSR and AUCCTU, when the NPG chairman tried to create trade unions representing an alternative to the Soviet "school of communism." In this context, however, the Free Miners' affiliation (unobtrusive and unpublicized) with Mr. Rybkin's bloc is somewhat disheartening, especially in view of the fact that the NPGR chairman said nothing about his campaign intentions at a meeting with journalists in the beginning of June. In connection with this, the alternative trade union's participation in the elections on Ivan Rybkin's side can only be explained by Aleksandr Sergeyev's status as one of the RF president's advisers and by the spring initiative, drafted deep within the presidential administration, on the establishment of a "right- and left-wing party," of which he had been aware, by his own admission, since the beginning of February.

SOTsPROF's allegiance, on the other hand, is divided among several blocs. Vladimir Khramov, its leader, supported former Chairman Vladimir Polevanov of the RF State Property Committee and joined his bloc "For the Motherland." SOTsPROF Deputy Chairman Dmitriy Semenov organized the "Left-Hander" Party and joined Chernomyrdin's "Russia Is Our Home" bloc without leaving his union office. Mr. Khramov's explanation for SOTsPROF's "omnivorous behavior" was that the organization needs people in parliament who are well-versed in the fine points of labor legislation, and that the party backing them is of no fundamental significance.

The loudest and most ostentatious election campaign is FITUR's. It can rightfully be called the AUCCTU's legal successor in terms of its numbers—the number of members (50 million—95 percent of the Russians) and the number of organizations, its inherited property and infrastructure, and its level of bureaucratization. Last fall, its leader, Mikhail Shmakov, aroused the interest of the media with his promises to run for parliament as an independent candidate. This was followed by the announcement of FITUR's commitment to leftist-centrist views and of its willingness to consider an alliance with any interested party, movement, or association.

By 7 May this year the federation had already notified the news media of its campaign alliance (with the possibility of the formation of a single bloc later) with the ROPP—the Russian Unified Industrial Party (Vladimir Shcherbakov) and the "Union of Realists" movement (Yuriy Petrov). The leaders of the three organizations drew up a general agreement after their meeting on 7 May, but it still has not been signed.

FITUR was in no hurry to confine itself to a partnership with only the ROPP and the "Union of Realists." Mikhail Shmakov was also engaged in consultations and negotiations with the Agrarian Party of Russia (APR), the Communist Party of the Russian Federation (CPRF), and the Socialist Labor Party and had made overtures to the Democratic Party of Russia and the Congress of Russian Communities (KRO). Furthermore, FITUR's campaign initiatives had also aroused the interest of Ivan Rybkin, the "My Fatherland," "Stability," and "Russia's Regions" movements, organizations of Great Patriotic War veterans and Afghan War veterans, and other groups.

It seems that Mr. Shmakov, who commonly refers to his organization as one of the few constructive forces in Russian society, must realize that all of the federation's strength lies in its infrastructure and, to some extent, its financial capabilities, and that both of these owe their existence primarily to its status as the successor-in-interest to the AUCCTU. This is why the trade unions are being offered a partnership by the "newborn" parties and movements and by the parties of the "boulevard" or "green belt," which have an urgent need for the FITUR infrastructure. In the first place, they need it to gain regional strength or at least regional recognition through trade-union committees on all levels. In the second place, the telephone and fax communication systems of the trade unions and their efficient network for the distribution of printed matter could solve the problem of collecting signatures for petitions and distributing campaign materials on the local level. Obviously, the FITUR leadership would prefer to offer its services only in the promotion of "ideals" capable of providing the federation with maximum advantages—in this case, the maximum number of seats in the future parliament.

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The Moscow functionaries of the federation of trade unions (in contrast to those of the former AUCCTU, for whom the democratic centralism of the Soviet regime guaranteed the unconditional fulfillment of any decisions by their subordinates), however, are not free in the "expression of their will" and have to consider the opinions of territorial and sectorial labor associations.

The differences of opinion with regard to participation in elections (or, more precisely, the fruits of this participation) between the "center" on one side and the "regionals" and "sectorials" on the other could only be surmised at the start of the campaign. The corporative interests of the labor bosses were too strong to allow public announcements of internal friction.

The establishment of the "Russian Trade Unions—Election Bound" sociopolitical movement was announced on 1 June this year. In this way, FITUR created its own election association, intending to use it as the basis for "the broadest possible leftist-centrist coalition" with a common federal ticket. At the press conference where the establishment of this movement was announced, Mikhail Shmakov named the parties and organizations with which consultations had been held. He implied that the consultations had pertained only to the terms of inclusion in the trade-union bloc. Mr. Shmakov also made the confident prediction that "Ivan Rybkin will join us."

Subsequent events took the form of a series of somewhat inconsistent developments, which the labor bosses tried to categorize as their campaign tactics. At a conference of the "Russian Trade Unions—Election Bound" movement on 20 July, journalists were assured that it would enter the campaign as an autonomous bloc. On 21 July Mikhail Shmakov signed an agreement to join Ivan Rybkin's bloc. On 18 August the trade unions withdrew from Rybkin's bloc by a decision of the first phase of their second conference. On 5 September the trade unions and the ROPP formed the bloc known as "Trade Unions and Industrialists of Russia—'Labor Alliance'."

One of the reasons that FITUR "made the rounds" of all of these blocs is that the "Russian Trade Unions—Election Bound" movement and, for that matter, any other central labor organization, could count on success with the voters only during the stage of the collection of signatures in support of candidates. In this context, last year's elections in Tataria are indicative. The trade unions there nominated ten candidates, seven of whom were union activists. The three who were elected were a physician and two teachers. Fortune did not smile on any of the functionaries. Besides this, only 16 of the 42 FITUR members joined the campaign as representatives of the labor movement, while the rest supported the APR, CPRF, "Women of Russia," and other groups. It is true that Mr. Shmakov's campaign movement managed to attract the support of eight labor unions that did not belong to FITUR. In addition to everything else, on 20 July there were reports that the leaders of territorial organizations and many primary organizations had joined campaign alliances with the APR, the CPRF, and the KRO without waiting for Moscow's decisions.

The final choice of a partner apparently was made not by the trade unions, headed by Mr. Shmakov, but by the directors, headed by Mr. Shcherbakov and Mr. Volskiy.

The directors are not unanimous either. That is why the "generals of production" have already acquired two "public organizations of professionals": the RSPP—the Russian Union of Industrialists and Entrepreneurs (with Arkadiy Volskiy as its chairman) and the FTR—the Federation of Russian Producers (with Yuriy Skokov as its chairman). Each organization is pursuing its own corporate interests, because each leader is backed up by the directors of specific branches of industry. In contrast to the pluralism prevailing among the parties and trade unions, however, the two directors' organizations cannot tolerate each other's existence. Both the RSPP and the FTR are striving for the inclusion, or at least the subordination, of all directors, without exception, so that they can offer most-favored status to their "own" branches while controlling industry as a whole.

Each organization has acquired a political structure for influence on the political level: The FTR has the Congress of Russian Communities and the RSPP has the Russian Unified Industrial Party. The KRO is headed by Skokov himself, and Mr. Volskiy has entrusted the ROPP to Mr. Shcherbakov, who worked in Ryzhkov's government and was then the last minister of economics of the USSR.

Therefore, the two directors' organizations needed the trade unions to facilitate their own campaigns. By securing the support of labor collectives through the labor bosses, the leaders of the FTR-KRO and RSPP-ROPP are hoping for stronger influence on the directors.

Mr. Shcherbakov and Mr. Volskiy were apparently successful in their struggle for the trade unions. It was with them that Mr. Shmakov formed his election bloc. This success, however, is only apparent. The fact is that the trade unions belonging to FITUR are also divided into eight labor associations on the territorial level. The Federation of Russian Producers, headed by Mr. Skokov, concluded agreements on cooperation with the leaders of all eight, and it did this just two days before Mikhail Shmakov announced the creation of the "Russian Trade Unions—Election Bound" movement. To Shmakov himself and to the Moscow functionaries

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behind him, it made no difference whether they would ally themselves with the KRO or the ROPP. The deciding factor was that Mr. Skokov (or, more precisely, his deputy in the FTR, Vasiliy Romanov, who was a member of the FITUR leadership until October 1993) completely ignored the Moscow FITUR leadership and did not respond to Mr. Shmakov's repeated written offers of a campaign alliance. Even after this, however, the FITUR leader did not take the ROPP's side completely and was prepared to accept the offer of just three slots in the central portion of the ticket of Ivan Rybkin's bloc to the trade unions. Evidently, Mr. Shmakov was satisfied with this because the first of the three slots would have belonged to him, the second would have gone to his deputy, and the third would have gone to the head of the Tatar branch of FITUR.

The decision to withdraw from Ivan Rybkin's bloc, judging by all indications, took shape in the ROPP, which had discerned the political insecurity of the Rybkin coalition. Vladimir Shcherbakov did not want to join the election race alone, however: In the 1993 election the RSPP, which formed the Civic Union, garnered only 1.5 percent of the vote. Furthermore, the industrial party had only 35,000 members. Mr. Shcherbakov, however, appears to have stayed in contact with regional trade unions since the end of the 1980s (when he was the chairman of the State Committee of the USSR for Labor). These contacts probably were one of the reasons that the regional and sectorial members of the "Russian Trade Unions—Election Bound" movement asked their leader, Mikhail Shmakov, to leave Ivan Rybkin's bloc and form an alliance with the industrial party.

In the final analysis, the campaign efforts of the labor bosses of the independent and free trade unions have resulted only in the dispersion of the defenders of economic interests across the whole political spectrum by adding the names of labor union functionaries to the lists of candidates from different parties.

Under these circumstances, the trade unions seem to have been assigned the role of the "driving belt," just as in the "good old days" of the USSR. Now it is already impossible for them to decline this role. The abundance of "political motors" attached to the trade union "belts" is certain to divide the ranks of the defenders of the laboring public's economic interests along political lines.

It is regrettable that not one of the Russian labor associations made use of the recommendations the FITUR Information Analysis Center drafted in February 1994 after the last parliamentary election. The analysts advised the labor leaders to demonstrate their "own strength" and influence by taking on the functions of independent observers in the next election. The labor bosses chose a different route.

***Cooperation in Oil Processing Project Debated**

*964E0183A Moscow KOMMERSANT-DAILY in Russian 27 Oct 95 p 9*

[Article by Andrey Chugunov: "Negotiations Between 'LUKoil' and AO 'Norsi': Long-Term Oil Alliance is Possible"]

[FBIS Translated Text] **Oil market experts have long been predicting that, when the federal authorities complete formulation of the oil companies, the latter will begin actively seeking mutually beneficial relations with each other. The talks between "LUKoil" President Vagit Alekperov, Oblast Governor Boris Nemtsov and AO [joint-stock company] "Norsi" General Director Vladimir Starikov which were held in Nizhniy Novgorod this week allow us to speak of the inception of a long-term partnership between the country's largest oil company and its second largest NPZ [oil processing plant].**

The companies "LUKoil" and "Norsi-oil," the primary among which is the "Norsi" plant, are the only ones of their kind in Russia. While the former extracts significantly more oil than it can process, the latter does not do any drilling at all. It is specifically this one-sidedness which defines their problems. This year, "LUKoil," with an anticipated oil drilling volume of 56 million tonnes, will process no more than 20 million tonnes at its NPZs in Volgograd and Perm. Moreover, these plants are already working at record capacity for Russia (around 90 percent). The remaining oil is delivered for processing to nine NPZs scattered throughout various regions of Russia. This, according to Mr. Alekperov, "complicates life." However, large-scale deliveries to "Norsi" on a long-term basis could provide the company guaranteed sales. On the other hand, "Norsi-oil," which bears responsibility for fuel provision to four nearby regions, still does not have guaranteed sources of raw material, and therefore "LUKoil" is a much-desired partner for it.

It is true, despite the obvious mutual interest of the parties, the negotiations bore the character of getting acquainted with each other. The president of "LUKoil" has a very cautious approach to the idea of acquiring stock in the NPZ, believing it necessary to first thoroughly study the structure of the "Norsi-oil" company. For the present time, in his words, cooperation could be expressed in joint processing and sale of petroleum products on the domestic and foreign markets. In this respect, the possibility of utilizing the terminal with passage capacity of 2 million tonnes per year which

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"LUKoil" intends to build in the Estonian port of Muuga is attractive for "Norsi." However, the management of "Norsi" and the administration of Nizhegorodsk Oblast are even more interested in the prospects of attracting investments for general reconstruction of the plant for the purpose of increasing the depth of processing of the oil and output of light petroleum products. In this connection, Governor Boris Nemtsov does not exclude the possibility of sale of a large packet of shares in the NPZ. On the other hand, the oblast leadership will hardly want to give up control over "Norsi," which plays a great role in the economy of the region (according to the results for the 9 months of this year, the enterprise accounts for around 22 percent of the oblast export).

The question of property relations of "Norsi" and "LUKoil" will evidently be resolved in 1996. According to the preliminary agreement of the parties, the acquisition of a packet of shares in "Norsi" by "LUKoil" is possible, as well as exchange of packets between them. Moreover, Boris Nemtsov has been able to come to agreement with the "LUKoil" management on resolution of the pension problem. "LUKoil" will now pay its debts to the federal pension fund by deliveries of oil to "Norsi," and the revenues from sale of the products of processing will go to the oblast section of the fund.

Then again, "LUKoil" is not the only oil processing company interested in "Norsi." "Norsi-oil" is conducting negotiations on integration within the scope of a financial-industrial group with the AO "Tatneft." However, the high-sulphur Tatar oil is much less attractive for the Nizhniy Novgorod plant than the West Siberian oil extracted by "LUKoil," which has a lower sulphur content.

***'Siberian Oil Company' Set Up in Omsk**

*964E0109 Moscow SEGODNYA in Russian 11 Oct 95 p 4*

[Article by Igor Spiridonov: "Birth of 'Siberian Oil Company' Legally Documented: 10.6 Percent of 'Noyabrskneftegaz' Owned by first Boston, But 'Siberian Oil' President Doesn't Know Who Stands Behind That Name"]

[FBIS Translated Text] A few days ago, the Omsk Registration Chamber registered the "Siberian Oil Company" [Sibneft], an open-type joint stock company. Already, a serious war has been going on between the center and the regions for nearly two years surrounding the creation of "Sibneft," whose members include the "Noyabrskneftegaz," "Omsk Oil-Processing Plant" [ONPZ], "Omsknefteprodukt" and "Tyumenneftegazeologiya" joint stock companies. Leonid Polezhayev, Omsk governor, told us about some of the details of that war at a press conference dedicated to the company's registration.

In the words of Mr. Polezhayev, the Omsk Oil-Processing Plant and "Noyabrskneftegaz" worked together closely for four years, and for a long time have had plans to merge into a single company. At the beginning of 1994, Boris Yeltsin instructed the government to study that question, but Moscow, paying lip service to the expedience of that decision, never gave a distinct answer. And this summer, the Siberians, unexpectedly for them, discovered that their enterprise was part of a reorganized commercial company called "Rosneft." This absolutely did not suit them, and after two personal meetings between Mr. Polezhayev and the president, Mr. Yeltsin, in a special edict, decreed that the state packet of 38 percent of the voting stock be managed by the "Siberian Oil Company" for three years. Viktor Gorodilov, general director of the "Noyabrskneftegaz" joint stock company, was confirmed as company president; he was also head of the board of directors, which included representatives of the Ministry of Fuel, the State Committee on Property and the Anti-Monopoly Committee, administrative organs of Omsk and Tyumen oblasts, the Yamal-Nenets Autonomous Okrug as well.

Leonid Polezhayev stated that this decision "answers the idea of the regionalization of economic reforms, because the utilization of natural resources and mineral wealth cannot occur without consideration of the interests of the peoples and economic subjects of those territories." At the same time, he does not exclude the possibility that attempts to wrest the "Siberian Oil Company" or its individual member enterprises from the hands of Siberians will continue. Among such attempts, mentioned before, Mr. Gorodilov pointed to recent publications in various central newspapers which attested that a significant portion of "Noyabrskneftegaz'" stock belonged to "Balkar-Trading," a Moscow-area firm, and that "Noyabrskneftegaz" could be counted as one of the largest budget debtors. There is no "Balkar-Trading" in "Noyabrskneftegaz'" register of stockholders,—stated Mr. Gorodilov,—and the association is entirely clean as far as the federal budget is concerned, although it does have some debts with the local budget."

Regarding this, in a conversation with a SEGODNYA correspondent, the president of "Sibneft" admitted that 10.6 percent of "Noyabrskneftegaz'" stock belonged to the American company First Boston, and that he didn't know who stood behind that name. "Balkar-Trading" is not listed among the Omsk Oil-Processing Plant's stockholders, either. The only unrelated company that owns a serious packet of stock is "LUKoil, with 10 percent of the ONPZ stock.

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The merging of large enterprises engaged in exploration, oil-processing and product sales into one company serves, in the opinion of Mr. Gorodilov, as a good incentive for developing production and diversifying product types. Even today, "Noyabrskneftegaz" intends to increase significantly its raw material deliveries to ONPZ. Also satisfied are regional leaders, who for a long time have watched anxiously as revenues from enterprises located on their territories went off to Moscow and as the oil companies' central offices relocated there. To the SEGODNYA correspondent's question—won't "Sibneft's" place of residence cause conflict between Omsk and Tyumen—Mr. Polezhayev confidently answered in the negative, stating that everything had been arranged with Tyumen Oblast leaders.

Sometime in the week of November 20th a general meeting of Omsk Oil-Processing Plant stockholders should take place, at which changes in the oil-processing plant's board of directors will be introduced. It is assumed that Konstantin Potapov, the vice president in charge of foreign economic ties who is currently acting president, will be elected president in the place of the recently killed Ivan Litskevich. The "Rosneft" representatives who automatically lost the right to be there after "Rosneft" lost its state packet of ONPZ stock must also be replaced. For now, there is no question of increasing "Siberian Oil Company" membership, although its leadership does not exclude the possibility that with time it may arise.

***Problems Besetting Transsiberian Railroad Detailed**

*964E0136C Moscow ROSSIYSKAYA GAZETA in Russian 20 Oct 95 p 6*

[Article by Nataliya Yachmenikova under the rubric "Transport Center": "Russia Rushing to the East"]

[FBIS Translated Text] *The longest railroad line in the world—the Transsiberian—began operating a hundred years ago. And what is the Transsib today? More than 25,000 "steel" kilometers. Almost a thousand stations, large and small. Hundreds of bridges and just as many tunnels. It is, finally, eight days of travel from Moscow to Vladivostok in deluxe train No. 1.*

The platform at Yaroslavskiy station. The Moscow—Vladivostok train. The departure time of 2:15 PM on the board.

"Hurry up!" Two fellows throw two voluminous packages into the car.

"And what's the rush, boys?" muttered the conductress. "This isn't the baggage compartment, you know."

"Runners?" I inquired.

"Businessmen," she reluctantly clarified.

"Are they really bringing things to sell in Vladivostok?"

"What for? They have plenty of good things there, both Japanese and Korean. These"—she nodded toward the "loaded-down" fellows—"go out a lot sooner. Ordinary passengers have stopped going—too expensive. But these, with more money than you can count, I have half a car full. And so many more will be taking a seat..."

Yes, on the deluxe train Rossiya today you frequently meet those who are ready to listen to the click of the railcar wheels from Moscow to the Pacific. And why that is is understandable. After all, for a ticket to Vladivostok on the comfortable SV you have to put up two million and more. And why, you might ask, would anyone, even if the purse permits, bump along in a train for a week? It would be simpler to take a plane. A place on the train is cheaper, but is still plenty—more than a million. Even the seemingly most accessible reserved seat costs the passenger almost seven hundred thousand.

There was a time, after all, when train No. 1, as they say, could get it done. Not just that one, but also the others running on the Transsib. The peak in shipments, of course, was at vacation time; Far East residents traveled in families to the mother country. The passenger traffic has dropped by roughly half today.

The Great Transsib, as they call it, is a railroad that is having far from its best times in general. Things are bad with passengers, and even worse with freight. That is even though it serves the largest industrial enterprises of Russia, such giants as the Magnitogorsk and Orsko-Khalilovskiy metallurgical combines, the Chelyabinsk Pipe-Rolling Plant, the Urals Motor Works...

The railroad was for many decades the sole "thread" connecting the center with the Pacific coast. Its significance grew even more when through traffic between Europe and the countries of the Asian Pacific region was opened up in 1970. Suffice it to quote numbers such as these: about three thousand "international" containers "traveled" the Transsib in 1971, and fifty thousand in 1976. It is twice as much today.

The Transsib had to withstand serious pressure in 1989, when the traffic intensity reached a hundred or more trains a day on some stretches of the line. That, moreover, was only the freight trains, not counting the passenger trains.

But here is a last report—at the Isilkul station, which is at a key fork on the Transsib to Chelyabinsk and the Sverdlovsk railroad, the very one where the railroad personnel never used to get a chance to catch a breath, they pass just 23 trains a day. The Petrovskiy Plant,

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another very lively junction of the East Siberian and Transbaykal railroads, 32 trains. At one time they did not "pass on" fewer than seventy. Arkharay, 28 instead of the former sixty.

"The Transsib is breathing too easily today," says the deputy chief of the Main Shipping Administration of the Ministry of Railways, Valeriy Gorbunov. "It has thirty percent of all domestic rail freight shipments today."

But the most important thing is that, ultimately, the decline in production will not last forever; the indicator of freight shipments has indeed crept upward this year, slightly but up nonetheless. It is worse that the situation today could give the Transsib a rest from which it will not soon recover. What do I mean? Like any large and complex system, a railroad needs to be looked after continuously, upgraded and repaired. But money is needed to take care of it, and it is disastrously short today. Yes, even at the current level of shipping the Transsib is doing pretty well, but the non-payments are killing it. An ominous situation has taken shape, for example, on the Transbaykal section—a number of bridges and and tunnels that were built, as they say, back in the days of yore, are not now being maintained. The railroad workers, of course, are doing what they can. They can, unfortunately, only patch holes. The trains have to move practically at the speed of a turtle—fifteen kilometers and hour! And it would be fine if there were just two or three hazardous sections—there are dozens of them.

There is another bottleneck at the bridge across the Amur. It is all because it is single-track, with all of the problems arising therefrom. They started building a new one about five years ago—eleven kilometers, with a four-lane road on top. The first phase, into which 370 million rubles in 1991 prices were "sunk," is now ready. Another hundred is all that is needed. Seemingly a small amount, but still not there. The operational start-up of the Amur bridge, by the way, would remove the stress on the Transbaykal—the Baykal-Amur line could assume some of the traffic at once.

There are other problems "ripening" that are still not all that apparent, but will make themselves fully heard someday. The ties and the track equipment are wearing out, and the fleet of railcars and locomotives is getting old. But there is no enterprise that can think about this without shuddering—a domestically produced diesel locomotive cost 40 million rubles in 1993, and an electric locomotive fifty million. All of the passenger locomotives are generally of Czech manufacture. Can you imagine what their price is today?

The Transsiberian line, by the way, is today one of the few that is virtually entirely electrified. That work, despite the enormous expenditures, was carried out in quite systematic fashion. The Transbaykal railroad, in which the Ministry of Railways has invested half a trillion rubles over the last ten years, is the finale...

So the train heads east. It does not run, it tears—speeds of 100 to 120 kilometers an hour are permitted on some stretches of the Transsib. The trains are getting faster today in general. This includes, on the Transsib, such routes as Omsk—Novorossiysk, Tomsk—Adler, Chelyabinsk—Odessa, and Irkutsk—Adler. What does this mean? That the road is shortened by something like 5—6 hours for the passengers, and even by ten in some places.

The Transsib, in short, lives. But it is too bad, of course, that its enormous possibilities are only being half utilized.

***New Rail Cargo Routes Bypassing Russia Outlined**

*964E0136B Moscow ROSSIYSKAYA GAZETA in Russian 14 Oct 95 p 15*

[Article by Aleksey Chichkin: "Will the Great Siberia Give Way to its Competitors?—*Euroasian Transit Could Be Shifted to Central Asia*"]

[FBIS Translated Text] *The drop in the volume of international transit shipments between the countries of Europe and the Asian Pacific region (ATR) across the territory of Russia does not in any way signify a reduction in the trading ties between them. While the volume of Euroasian transit across the Transsib has dropped by almost half over 1990 through the first half of 1995, the volume of trade between the ATR and the European far abroad has increased by almost 40 percent over that time. This indicator will at least double for the ATR over 1990-95, according to forecast estimates of the UN Economic Commission.*

The preservation of the "transit monopoly" of the Transsib and the ports of the RF connected to it on the Baltic, Black, Azov and White seas and in the Far East is not very likely. First of all, the deteriorating operating conditions of the network of railroads in Russia, including those making transit shipments, is causing disruptions in the traffic schedules and is increasing the time periods for the delivery of freight accordingly. The extra actual time for the shipment of foreign freights along the Finnish Gulf—PRC border route (Finnish border, Vanino, Nakhodka) is six days over the standard time today, and that is three days more than in 1982.

The railroads of East Siberia, the Far East and the ports adjoining them lead the RF in the level of wear of the rail system and rolling stock and in the scarcity of

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throughput capacity of the border stations and terminals. These regions also have no equal in the CIS in the extent of pilfering of any trains.

Second, the explicit status of the railroads of the former USSR that were "dispersed" among the countries of the Commonwealth has still not been defined. The former territorial (regional) railroad administrations, subordinate to the MPS [Ministry of Railways] of Russia, has nominally been preserved. State railroad administrations that are not subordinate to the RF MPS (?) have meanwhile been formed in the other CIS countries. The situation is analogous with the railcar inventory, locomotives, railroad machine-building enterprises and the like.

Third, the frequent political frictions of Russia with its neighbors in the former Union, especially the Baltics and Ukraine, are making the international transit shipments, as well as domestic trade shipments in Russia, more difficult.

The aggregate of these and similar factors is having a negative effect on the competitiveness of the Transsib and the arteries connected to it. The volumes of Euroasian transit across the RF are thus falling.

Transport support for trade between Europe and the ATR depends on more than Russian lines of communication alone, however. A new route for Euroasian transit is being actively assimilated for the aforementioned reasons, as well as owing to geographical factors, through Iran, Central Asia and China. The UN Economic Commissions for Western Asia and the ATR proposed a plan as early as 1989 for the construction of a transcontinental railroad that would run through Turkey, Iran, Turkmenistan, Uzbekistan, Kazakhstan and the PRC. We are talking about a routing of Istanbul—Ankara—Teheran—Meshed—Mary—Chardzhou—Samarkand—Tashkent—Alma-Ata—Druzhba—Alashankou—Urumchi—Peking—PRC ports and Korea on the Sea of Japan, Yellow and East China seas. The route of this line, counting the connecting railroads of Greece, Bulgaria, the Transcaucasus and the Near East, encompasses 13 countries.

The overall length of this artery is approximately 20 percent less than the route from the Western border of the CIS (Baltics—Transsib—Far East). The average Asian "competitor" moreover has a direct rail link with Hong Kong, Indochina and Singapore.

Another factor that has a positive influence on this transit route is the presence of a railroad ferry system between Rumania and Turkey (Constanta—Samsun) and Syria (Volos—Latakia), and Azerbaijan and Turkmenistan (Baku—Saparmurat (Krasnovodsk before 1994)), as well as between Greece and Italy, China and Japan, Singapore and Indonesia, South Korea and Japan, Taiwan and South Korea. The actual utilization of these systems, according to foreign data, is an average of 40—45 percent today.

The war in the former Yugoslavia and Turkish Kurdistan, as well as in Karabakh, has forced the UN Economic Commissions for Western Asia and the ATR to reconsider the corresponding plans. The following transit routes are recommended today: through Hungary—Rumania—Turkey—Georgia—northern Azerbaijan—trans-Caspian ferry (Baku—Saparmurat), and on through Central Asia and the PRC; through Hungary (Rumania, Slovakia)—Ukraine—Lower Volga—Kazakhstan—PRC. A local variation of the first transit route is Hungary—Rumania (Bulgaria)—Turkey (Georgia).

The creation of railroad—ferry systems is also being considered between Bulgaria and Georgia (Burgas—Poti), Georgia and Ukraine (Poti or Batumi—Nikolayev), and Kazakhstan and Azerbaijan (Mangyshlak—Baku). A Bulgarian—Ukrainian treaty has been signed to increase international transit shipments by the Varna (Bulgaria)—Ilichevsk (Ukraine) ferry. The question of creating a rail-ferry system from Constanta (Rumania) to Kherson (Ukraine) is also being considered in Kiev and Bucharest.

The new Euroasian routes, in short, skirt Russia, if you do not count the rail lines linking the Donbass and the Azov ports with the Lower Volga and on to Kazakhstan. The average distance of shipments on these lines on Russian territory, however, is only 400 km. And in the event that a Black Sea (Rumania, Bulgaria, Ukraine)—Transcaucasus (Georgia)—Caspian region of the CIS (Azerbaijan, Kazakhstan, Turkmenistan) through route is created, which is shorter in length than the Donbass (Azov region)—Lower Volga route, the latter will "be retired."

The Russian lines of communication are thus becoming non-competitive in the market for Euroasian shipping for many reasons.

It is also important to note that the Central Asian portion of the new transit artery consists of already operating trunk lines: the turnover of the railroad between Turkmenistan and Iran (Serakhs—Meshed, about 300 km) for operation in 1995 has made it possible to link the railroad network of Georgia, Azerbaijan, Iran and the countries of Central Asia into a unified system. The opening this same year of a direct rail link between Kazakhstan and China (the Druzhba—Alashankou stretch of 45 km) has, as it were, "hooked

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up" China and the other countries of the ATR located south of the Russian Far East to this system.

The total requirements for the investments necessary to upgrade a number of sections of the new "transit loop" in Georgia, Azerbaijan and Central Asia are estimated by foreign experts to be 800 million to one billion dollars. The firms and banks of many countries, including Asian ones, however, are already making those investments.

One factor of no small importance in the market competitiveness of the new routings is the participation of Azerbaijan, Turkmenistan and other Central Asian countries in the Organization for Economic Development and Collaboration [OERS], along with Iran and Turkey. One of the priorities of integrating within the framework of the bloc is to develop the transport system and transport machine-building of the participating countries: the share of this sphere in the credit and investment financing of integration processes and programs of the OERS is no less than 60 percent.

Proceeding from the aforementioned, it is valid to state that until the aims and tasks of the collaboration of all of the countries of the CIS in the sphere of transport and international shipping are clearly defined, Russia will not be able to compete, for geographical reasons, with the new markets for Euroasian transit. The interests of the Commonwealth countries must be coordinated in the implementation of international transit, and the state affiliations of all of the transport facilities of the former Union must be clearly defined.

But by the way, do Russia's neighbors in the CIS actually want such interaction? Judging by the plans that are already being realized for transcontinental "transit bridges" that skirt the RF, the transport support for Euroasian trade is still not a high-priority sphere of integration within the framework of the Commonwealth.

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## National Affairs

### CP Plenum Attacks Government Program

*964K0014A Kiev SILSKI VISTI in Ukrainian 20 Oct 95 p 2*

[Article by Vasyl Hruzin: "Explaining the Government Program Is One of the Communists' Main Tasks. So Decided the Joint Plenum of the Central Committee and the Central Auditing Commission of the Communist Party of Ukraine"]

[FBIS Translated Text] **Two closely interconnected questions were put to this plenum for consideration: the [party's] attitude towards the president's government program that had been approved by the Supreme Council and the work of party organizations in connection with the drafting of the new Constitution of Ukraine.**

**The plenum assessed the government program as follows: it contains many correct conclusions and just assessments of the situation in Ukraine; it also promises to save production and ensure its growth, thereby improving the life of the people. It is apparent that there were people taking part in creating this document who understand that to continue following the same path as the one we have followed for the ast several years and still follow today means moving — moreover, with gathering speed — towards a total national catastrophe.**

**But if one discards the verbal camouflage and takes a close look at the real gist of the government program, it will become clear that in general its content and direction were defined by officials, who, though they hold key posts in the president's circle, are the creators and advocates of the same "shock therapy" that has been applied in recent times and is now being offered to us anew.**

The plenum went on to characterize the government program as a program of accelerated capitalization of all spheres of the life of our society with the intention of making this process irreversible. A specific manifestation of this is the course aimed at the total privatization of state property, that is, the virtually uncontrolled growth of prices, introducing private ownership of land and transforming it into an object of purchase and sale, breaking down collective forms of farming land, and destroying the social sphere, thereby creating additional favorable conditions for enriching a small group of "fat cats" at the expense of the further impoverishment of millions of working people. The rich will grow richer, while the poor grow poorer. This is not just a horror and a tragedy for the people, but a threat to their physical survival, for we are now at a point where people are not simply undernourished, but actually dying of hunger. (It was reported at the plenum that in Sevastopol even a professor had died of hunger.) Given these circumstances, Ukraine faces a real threat of losing her economic sovereignty and statehood.

That is why the Communist people's deputies of Ukraine opposed the adoption of the government program in the Supreme Council.

For example, the peasants should know that dividing up land into shares means creating conditions for the free sale and purchase of plots of land to allow sharp operators to safely invest their dishonestly acquired capital. Yet the program contains nothing concrete about such key issues as relieving farms of extreme financial pressure, creating equal economic conditions for industry and agriculture, replacing the ruinous price and tax policies with policies that stimulate, protecting the country's agricultural producers, developing a modern processing industry and a social infrastructure in rural regions.

The following was also discussed at the plenum. L. Kuchma recently signed another decree On the Investment Abroad of Physical Assets by Residents. His purpose was to create conditions for the unobstructed removal abroad by quick-witted operators of the latest equipment, advanced technologies, know-how, computer programs, and other assets. This opens up opportunities for a new, large-scale plunder of the state.

The government program is an attempt to yet again deceive the people.

At the same time, the speaker, P. Symonenko, first secretary of the Central Committee of the Communist Party, and other speakers described the nature of the activities of party organizations among the masses and stressed the need to explain to the people that the Communist Party's opposition to the current regime does not mean that the Communists act in accordance with the principle "The worse it gets, the better it is for us." We, said P. Symonenko, have supported and are prepared to support concrete measures aimed at saving Ukraine from being transformed into a colony, and the people, from destruction.

The Communists are accused of engaging solely in criticism, of rejecting everything, and of not proposing a constructive program of their own. This is not true, stated the plenum. The Communists have such a program; it is set forth in documents submitted to the Supreme Council and published in the press. But the ruling structures pretend not to know this. Instead, threats against the opposition are growing. Things have reached a point where L. Kuchma, having invited the first secretary of the Central Committee of the CPU for

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a talk, told him that he would "destroy" him. This was in conjunction with the Communist Party's support for the mass protest action by workers scheduled for 25 October of this year on the initiative of the All-Ukrainian Union of Workers. P. Symonenko personally related this at the plenum.

Proclaiming the destructive nature of the policy of the current regime and the CP's resolute determination to continue defending the interests of the working people of Ukraine, the Communist Party is acting strictly within the framework of the constitution and firmly opposes all manifestations of extremism and irresponsibility. The Central Committee of the CPU calls upon everyone to be vigilant, particularly regarding possible provocations, regardless of who may be behind them.

Taking into account the fact that the president and his circle are forcing the drafting of the constitution, which is to secure the antisocialist coup that is being conducted against the will of the majority of the people, the Communist Party calls for an All-Ukrainian Referendum on the principal provisions of the new Fundamental Law.

The Communists have drafted and published their own draft constitution. The plenum called upon the party organizations to mount a mass educational campaign with respect to this draft, as well as to create initiatory groups to collect signatures in support of the All-Ukrainian Referendum on the fundamental principles of the new constitution.

***MVD Official Sees Bribery Widespread**

*964F0253A Kiev PRAVDA UKRAINY in Russian 24 Oct 95 p 2*

[Interview with Aleksandr Kharlamov, chief of the Ukraine MVD Main Administration of the State Service To Fight Economic Crime," by Natalya Svichkolap; place and date not given: "Bribery Enters....Without Knocking"]

[FBIS Translated Text] Why is a bribe given? I read in Dal's dictionary "to avoid constraint." In the nice last century even the wording was refined. But how many synonyms does the word "bribe" have—"sryv, pobory, prinosheniya, dary, gostinitsy, pishkesh, bakshish, khabar, mogarichi, plata, podarok." Those who accepted bribes were quite simply called bribe-takers. And they complained: "There are many bribe-takers, but few bribers." This is not the case now. Excuse me, but we have a lot of bribers now.

Aleksandr Kharlamov, chief of the Ukraine MVD [Ministry of Internal Affairs] Main Administration of the State Service To Fight Economic Crime, considers bribery one of the most negative phenomena of today, a criminal offense with a certain tendency to grow. In comparison with last year the number of exposed crimes of this kind increased by 23.8 percent. It seems that the idea that "you have to grease somebody's palm to get things done" has firmly rooted itself in our pre-market soil?

"Unfortunately, this is so," said Aleksandr Vasilyevich. "And it is not necessary to search far for an explanation of the situation that has developed.

"The financial-credit system and banking institutions are the most graphic example of this. They are now becoming central links for the 'laundering' of money acquired by criminal means, and also the object of machinations on the part of swindlers and dealers in the 'shadow' economy. The process of forming a financial infrastructure is not moving energetically enough. As a result, almost every third commercial bank violates the established norms. Some banks have in fact gone bankrupt. A majority of the violations occur on the credit and currency markets, in the province of bookkeeping accounts, and in the compilation of accounts of the managers of banks and the directors of branches who pursue mercenary aims and take the path of criminal deals with commercial structures, engage in bribery in the issuance of credit, and conceal evidence of a fictitious business and bankruptcy.

"A criminal group, for example, was exposed in Kirovograd Oblast. It included the directors of the oblast branch of Ekonombank joint-stock company bank, which was robbed of more than 15 billion karbovantsy; for granting interest-free credit of 10.5 billion karbovantsy they received a bribe of $2,100 from the director of a private enterprise. The criminals were arrested. During a search of the suspects, valuables in the sum of more than 16 billion karbovantsy were confiscated.

"Criminal charges were brought against one of the directors of the board of the Zaporozhye Elita commercial bank, which received a bribe of $3,000 from the Trans firm for granting credit in the sum of 5 billion karbovantsy.

"Frequently, credit resources, the demand for which is growing, are directed and used for other than their designated purpose with the knowledge of the managers of banking institutions, and this, naturally, results in real losses to the economy.

"A criminal case is being investigated against the Lugansk branch of the Ukrainian Vidrodzheniya bank, which received a bribe of 180 million karbovantsy for financing a sum of 5 billion karbovantsy for nonexistent facilities of a limited responsibility partnership.

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"The situation in the sphere of foreign economic activity also does not yet promise a change for the better.

"Militia employees in the localities have inspected 343 foreign economic activity entities that conduct export-import operations and that have debts because of them. As a result of this work, which was conducted by subunits of our service, 51 foreign economic activity entities settled their debts in commodities and currency for a sum of $9.580 million, and 36 crimes were exposed in facilities with foreign investments, in which the sum of overcharges amounted to 31.9 billion karbovantsy and $59,000.

"At the same time, because of deficiencies in existing legislation, a substantial part of monetary resources is systematically converted into cash and is in criminal circulation.

"In this sphere 342 crimes were solved this year, including 58 embezzlements in large and especially large amounts, and 37 cases of bribery.

"Regardless of our desire and efforts to prevent this kind of situation, obvious trends can be seen today in the shift of foreign economic activity to the 'shadow' sphere and the increase in criminal business. A greater and greater number of business structures are taking the path of concealment, or distortion of financial statistical information on their foreign economic activity. The most widespread violation in this sphere is the illegal export of capital, the concealment abroad of currency resources, tax evasion, and increasing or decreasing customs duties."

[Svichkolap] Is the situation also aggravated by the fact that people who are supposed to exercise control—tax inspectors and customs duty officials themselves—are playing the role of bribers?

[Kharlamov] Unfortunately, this is true. Criminal proceedings were brought against a group of managers and auditors-inspectors of the audit administration of the Starosamborskiy State Tax Inspection of Lvov Oblast. They received three television sets for concealing economic activity violations by the Meridian plant. And the chairman of the Spivdruzhnist joint-stock company paid off their colleagues from the Lugansk Oblast Sverdlovskiy city tax inspection with three Japanese television sets.

Some customs officials also do not have clean hands. For example, a criminal case is being investigated against a senior customs official of the Mostiska customhouse, which is situated in Lvov Oblast. He drew up fake documents on stolen machines and received a bribe of $6,000 from an unemployed resident of Sambor.

But countless cases of bribery are exposed in the process of privatization!

Unquestionably, all this causes us serious concern. The trouble is that criminal groups, in order to cover up their illegal actions, establish corrupt ties not only with state employees and managerial personnel but also with individual representatives of organs of authority and people's deputies.

The bribe, unfortunately, has become an indispensable "attribute" of our life. Of all those who have a mind to try to improve their material situation in this way. [end Kharlamov]

At the end of the interview Aleksandr Vasilyevich emphasized that it will be practically impossible to be victorious over crime without improving the economic situation. This is not the conclusion of a novice. Kharlamov has a lot of experience working in the administration, which before was called the OBKhSS [Department for Combating the Embezzlement of Socialist Property and Speculation]; nevertheless, he was compelled to state: Bribery today enters without knocking, and what is even more, it impudently kicks the door open.

### Official Details Crimea Constitution Talks

*964F0237A Simferopol KRYMSKIYE IZVESTIYA in Russian 25 Oct 95 p 2*

[Excerpt from the speech by A. Danelyan, chairman of the Constitutional Commission and deputy chairman of the Supreme Council of Crimea at the Third Session of the Supreme Council of Crimea: "Overcoming Differences"]

[FBIS Translated Text] Last week the Constitutional Commission of the Supreme Council of Crimea, together with legal experts, cooperated in Kiev with the official working group of the Supreme Council of Ukraine on coordinating the text of the constitution. The negotiations were not easy.

It was proposed that we begin with a new conceptual approach to the constitution of an autonomy. We explained that the constitution was not just simply legally formed in our case by the Supreme Council, but has already been adopted in two versions—on 6 May and 25 September 1995, which constitutes an understanding not only by the deputies but also by the public of Crimea, that we have taken this constitution as a basis not because we did not want to write a new one, but because the constitution has already been accepted by the people of Crimea. I know that even inside the Supreme Council of Ukraine there are several approaches to the constitution of Ukraine, and I know that there is an alternative draft of it, where a

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parliamentary republic is proposed without a president, etc. Therefore we see the demands of the opponents as a desire to draw out the process involved in the adoption of the constitution while involving us in prolonged discussions.

Our delegation adopted an unambiguous decision to refuse such an approach since with regard to the concept of the constitution as such, we have already determined our position and came to discuss and coordinate its text article by article. The other side agreed with us and we began concrete work.

In the first two days we "covered" the constitution, one could say, "in the first reading" and, strange as that may seem, in the remaining time managed to study it to the end in even "its second reading," dealing with each article thoroughly.

Out of the 150 articles we found a common language for almost 130 of them. In some areas it was necessary to compromise; in others a concession was required, but there remained about 20 other articles. In their political weight these 20 articles could outweigh the other 130 because they are the most important and determining ones both with regard to the political status of the autonomy and with respect to the economic powers of the Crimean Republic.

Those articles about which we did not find understanding on behalf of the working group of the Supreme Council of Ukraine I proposed be separated into two parts. The first should contain articles, decisions on which are not within the competence of working groups. I stated directly that this is within the competence of only the leadership of Ukraine and Crimea. In part, these are articles dealing with power structures, the deployment of military units and subunits, and those concerning all law enforcement agencies (the office of procurator, the legal system, the order of appointment and removal from leadership posts of individuals in the security service, the Ministry of Internal Affairs, and the Ministry of Justice). I offered that those articles not be considered, leaving them for coordination at the highest leadership level of Ukraine and Crimea.

The second part is to contain about eight articles, specifically those on which we failed to reach a mutual understanding, beginning with the name: Constitution of the Crimean Republic, including the word Autonomous, with a capital letter, bearing in mind that those three words make up the official designation of the Crimean Republic.

Of course, we could not agree with this and said that the Supreme Council of Crimea would hardly reconcile itself with this. It is necessary to understand that there are already certain traditions in Crimea, and there is an established name: the Crimean Republic. By the way, we spoke not only of traditions, but we provided legal arguments: the word "autonomous" speaks about the essence of statehood and must not be made part of the name of the republic. After all, we do not call it independent or sovereign Ukrainian Republic; we say Ukrainian Republic. In numerous cases when "the other side" lacked legal arguments, we were told: "We understand you, but this will not pass at the session of the Supreme Council of Ukraine." That was probably an attempt at pressure. When they have no arguments they say "it will not pass," and it is very difficult to conduct negotiations.

Finally we found a compromise. I hope that the Supreme Council will approve it. We proposed that the word autonomous be used in only one place in front of Crimean Republic, and then not with a capital letter: "Constitution of the autonomous Crimean Republic." At the same time we suggested that the first article indicate that the official designation of the autonomy is the Crimean Republic. If the Supreme Council should support this, I believe that this is a wise compromise, i.e. we leave the name. The essence of statehood, however, autonomy, is something that we cannot get away from; the republic was autonomous and remains autonomous.

I understood that we found understanding among most of the deputies, even though I will note a highly characteristic point: in the delegation of the Supreme Council of Ukraine, the weather was created not by deputies or the politicians who have to really adopt our constitution, but by legal experts, since with regard to any issue, whenever we approached a compromise, the deputies asked their experts: "Do you agree?" If the reply was "no," they then stated: "Pardon us, we do not agree." (Jurists are jurists. If they are given the proposition that the statehood plank must be lowered to the lowest level, that is what they work for.)

As far as the preamble is concerned there were many wishes, but with respect to one term (the people of Crimea) we encountered an absolute lack of understanding. During discussion of the constitution in the first reading, our deputies also had some remarks regarding the preamble, because of which we proposed that this issue not be discussed at this point. Taking into account current realities, however, it is necessary to review the text of the preamble. I requested that some work be done on this because this week it will be necessary to travel to Kiev for final coordination of the text of the constitution. I believe as follows: even if regarding some issues of a political nature we do not find understanding with the delegation or working group of the Supreme Council of Ukraine, we will take these issues to the leadership

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of the Supreme Council, the leadership of the faction, where we can coordinate that, but at the beginning of November we have to adopt the constitution.

All members of our delegation worked in a very fruitful manner. They sensed each word, every article. I would like to take special notice of the work done by deputies Rudakov, Zyryanov, Morozov, Abdureshytov, and Selyukha, and, of course, our legal experts Skysov and Demydov. From the Ukrainian side there was our Crimean deputy Kogen, a Karaite. When the conversation touched on the people of Crimea, I asked: "Is there a Crimean Tartar nation in Crimea? Are you denying that?" "We are not denying this." "But could it be so that in the republic there are people, including the Krymchak people, but not a nation as such?" "You know that will not be accepted." We did not hear any legal arguments on that.

Attempts were made to convince us that wherever the word "state" is encountered in the Crimean constitution we are to cross it out no matter what it applied to, but if we are speaking, for instance, about organs of state executive power of the Crimean republic, they say: "Remove the word 'state.'" We ask: "Do we have state power in the republic?" "No, there is state power only in Ukraine; you can only have republic power." In one of the articles, however, it states that the church is separated from the state. How can it be indicated from what it is to be separated? From the republic? One lifts one's hands in dismay.

There were a lot of arguments concerning symbols. They insist that we do not have statehood; we say that we do. We ask the question: "What symbols do we have?" No one could answer that. There are the symbols of public organizations, political parties, etc., but there are also state symbols, a state formation—autonomy. It was only on the last day that we found some common ground with help from Shishkin, the former procurator of Ukraine. He is considered to be one of the leading specialists in the field of state legal relations. As a jurist he stated unambiguously that our autonomy is not simply an administrative-territorial but a state-territorial formation. After that the experts became silent.

As far as symbols are concerned we decided on a compromise: in the first article we speak about the fact that the Crimean Republic has its own flag, coat of arms, and national anthem, but in the second article we wrote that citizens, establishments, etc., must show respect for state symbols of both Ukraine and the Crimean Republic, i.e. the word "state" applies to the symbols of both Ukraine and the Crimean Republic. We believe that in this manner we have avoided arguments.

The people are the only source of state power. We do have a republic, and in a republic the source of power can only be the people. After all we do not have a monarchy! Even the formation of autonomy occurred as a result of an expression of the will of the people. We did not find understanding, but I think that this article must be left as this is a legally correct formulation and we must defend it.

Extensive arguments were caused by the territorial layout, the status of Sevastopol, etc. Deputies Morozov, Zyryanov, and Rudakov made good presentations and offered convincing arguments. It came to where the territorial affiliation and status were shown to be completely different things.

The territorial affiliation of Sevastopol was confirmed for Crimea by Ukraine itself, but we did initiate that question. When the Supreme Council of Ukraine adopted the law on formation of the Crimean ASSR, there was a point on the election of additional deputies from Sevastopol to enter the Supreme Council of Crimea. The territorial affiliation of Sevastopol with Crimea was thereby confirmed, but we agreed that Sevastopol does have a special status and there is no contradiction in this regard. After all, there are cities under republic jurisdiction, such as Feodosiya and others. They do not form a part of the rayons. In the article where the special status of Sevastopol is determined, they recommended that we move away from this formulation. Then we provided a completely different formulation which was prepared by our expert Demidov: "The territory of the Crimean Republic is the territory of the Crimean Peninsula within boundaries determined on the north by the administrative boundaries of Kherson Oblast," having in mind that Sevastopol as well is on the territory of the peninsula.

With regard to citizenship, as usual, it was declared to us that it is contrary to all norms. In Crimea there must not be any citizenship, but in the course of negotiations we explained that in speaking of citizenship we have in mind not international rights of a subject, but internal citizenship of the Crimean Republic, conditioned by our specific conditions, etc., particularly since there are some examples in international practice as well. They also know about that. "We agree, except that you must...You have not fully convinced us... What do you need that for?" One of the deputies stated: "That is highly dangerous. If I arrive by car and you stop me without allowing me to enter your territory..."

It may be said that the biggest differences occurred concerning this issue.

Negotiations are continuing. After the Supreme Council approves the coordinated articles, the Constitutional

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Commission will depart for Kiev for final coordination of the text of the constitution as a whole

***Official on Work of Internal Politics Directorate**

*964F0214 Kiev MOST in Russian 23-29 Oct 95 No 42, p 4*

[Unattributed interview with Sergey Teleshun, chief, Ukrainian presidential administration Internal Politics Directorate, under "Interview" rubric: "Sergey Teleshun: 'We Must Overcome the Fear of Communicating Directly with People, We Must Get Out Onto the Street, Talk with People Who Are Looking You In the Eye, Try to Understand Their Positions, and Maybe Even Change Their Minds About Something"]

[FBIS Translated Text] *Sergey TELESHUN, Ukrainian presidential administration Internal Politics Directorate chief, responds to questions from MOST.*

[MOST] Tell me, please, about the directorate that you are in charge of.

[Teleshun] I would say that our directorate is the most specific division of the presidential administration. This is because the arrival of a new president is often accompanied by new understandings of the principles of internal policy, as well. Some parts, of course, remain, and some parts, as a rule the majority, are given new content. What do I have in mind? Mainly, fundamental orientation—work with political parties, trade unions, inter-denominational problems, with all of the above not standing alone, but to the degree at which they are capable of affecting state stability. Questions of internal policy, in my opinion, are very closely related to concepts of political stability and national security. And there are aspects of national security that are directly related to internal policy. This is the stability of political institutions, the fulfillment of citizens' material and spiritual needs, certainty in their future, that is, their social protection, and the country's territorial integrity. Our directorate's work is subordinated to the achievement of the above.

[MOST] What kind of education do the people have who work in the directorate?

[Teleshun] Higher. Most have completed graduate school, have scholarly degrees, and are professional jurists, historians, philologists, philosophers, economists.

[MOST] Are the operations of the Internal Policy Directorate regulated by any particular documentation?

[Teleshun] Our operations are regulated by a corresponding Statute which specifically stipulates the orientation of its operations, its number of employees, and so on. There are no particular secrets here.

[MOST] State employee, an official—is this a profession, can it be taught?

[Teleshun] It most certainly must be taught. And an official at the state level, in my view, is a person whose characteristics must include an entire selection of specific qualities. Of course, they are professionalism, the ability to see a problem globally, not just see it, but to find mechanisms for its resolution, as well. He also needs psychological stability, the necessary education, experience in working with people in the administrative organs of government, analytical abilities, communications skills. Here, a mind alone, or, shall we say, just skills, are not enough—he must have everything together.

At one point, when I was painting pictures, I was asked one day—whom would I want as a mentor—a good artist or a good teacher. I chose the artist, and only later understood that I had made a mistake. A leader must definitely be a good teacher, organizer, be able to organize the necessary structure and to make it work effectively.

[MOST] It is extremely difficult to make an objective assessment of the results of your work; do any stable criteria exist for assessing it?

[Teleshun] In fact, we only make recommendations; political decisions are made by the president, as the highest state official. Our recommendations, if they are accepted, eventually take the shape of the operations of certain political mechanisms, and the level of positive results for these mechanisms can serve as an indirect indicator of the effectiveness of our work. Besides this, the effect of completing certain tasks may make itself felt relatively quickly, as happens, let's say, in the process of working with political parties to solve individual regional problems. Only a few months have passed since the president and parliament signed the Constitutional Treaty, and its fruits are already visible—the government has been confirmed, its program has been adopted. The president's administration worked very actively on the treaty, and by concluding it, Ukraine demonstrated to the entire world a precedent for the peaceful political regulation of relations between the various branches of government. In this manner, a single legal field has been created, within the bounds of which we can move towards the adoption of a new constitution. Incidentally, I count its adoption as one of our long-term tasks, decisions, the results of which will be evident not just today, but in the future, as well, and which will make it possible to form a future Ukrainian state.

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[MOST] One gets the impression that there are no political parties in Ukraine besides those that stand in opposition to the executive branch.

[Teleshun] It is quite advantageous to be in the opposition, no matter which form it takes—either a constructive opposition, or a conditional union with many reservations, or the shameless criticism of all and sundry. It is harder to take upon oneself responsibility for the reforms that have been implemented. In addition, the political situation in Ukraine is extremely changeable, because absolute stability on this issue is possible only in a totalitarian society. In many ways, here it is being determined by the impending parliamentary primaries. I guarantee you that by spring, the distribution of political forces will change substantially, and that by summer—maybe beyond recognition.

[MOST] Where does the greatest threat for the reforms come from—the left or the right?

[Teleshun] Pressure can be felt both from both sides. It is curious that the methods of operating for the extreme left and the extreme right, and often their slogans, as well, coincide in many ways. Specifically, the many evocations from UNA-UNSO, the labor fronts and the All-Ukrainian Union of Workers coincide, especially in their populist tone. If one recalls the classic Leninist theses, then UNA-UNSO is a typical party of the new type: a quantitatively limited active backbone, radical slogans, militarized youth detachments which under the Bolsheviks were headed by Dzerzhinskiy, Stalin, Frunze, Kamo. How does UNA-UNSO differ from the Bolsheviks of that time? It doesn't, perhaps only in the color of its banners, and there is even some red on the UNSO banners.

[MOST] If individual political forces have so obviously taken themselves out of the legal field, is it worth entering into discussions with them, attempting to find a common language with them?

[Teleshun] It is definitely worth it. It would be too easy to throw everything away indiscriminately. We must overcome the fear of communicating directly with people, we must go out into the streets, talk to the picketers, try to understand their position, and maybe even change their minds about some things. You understand that participants in demonstrations held under the administration's wall as a rule feel great animosity towards the government. But when they see you, as they say, eye to eye, when they talk with you as they would, of course, with a representative of the authorities, but at the same time, also as a concrete, live person, it is possible to break the ice of mistrust and prejudice. For example, when I recently had occasion to speak with representatives of leftist forces at the administration walls, I, to my own surprise, saw among the picketers a fair number of people I had known at the pedagogical institute, where I have been, in my time, a student, a graduate student, and then an instructor. At first they were quite guarded, but in the end, we had a normal conversation.

[MOST] Does a state official have the right to his own political views?

[Teleshun] He does, but he should not be led by them in his professional capacity. He must be led only by the principles of professionalism and by the requirements of state expediency, similar to those that I listed earlier. If one becomes even slightly politically engaged, it is very easy to slip to an extreme, from which the only road is dismissal.

[MOST] Evidently state service pays well?

[Teleshun] I won't speak for others, but the salary report for September testifies that this month Teleshun, Sergey Aleksandrovich received 14 million 320 thousand karbovantsy "gross."

[MOST] And perks?

[Teleshun] I can call for a car for official errands. On privileges in general. If somewhere there does exist some possibility to receive them, I think it would be better to consciously limit oneself in this matter—far too many times, I have seen people, extremely worthy people, who suffered greatly after retirement from losing the many small conveniences to which they had become accustomed.

[MOST] What do you do in your free time?

[Teleshun] If I have any, of course. I love to read, take walks, draw. Unfortunately, I don't often have time for artistic literature, but for me, personally, it is very interesting and important to acquaint myself with new ideas in the fields of political science, the study of conflict, social relations—without this, it is simply impossible to keep abreast or to retain the necessary work and intellectual form. I write articles for periodical publications. We have created an analytical foundation called "Spivdruzhnist," where we gather and perfect interesting political ideas in joint discussions.

[MOST] And what would you like now, as they say, for your soul?

[Teleshun] You know, I would like to recall the quite recent past and simply do a few lectures—either for students or just for an interested audience. I have a couple of subjects that will generate at least six hours of general discussion—I guarantee it.

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***Center Faction Positions Detailed**

*964F0213A Kiev GOLOS UKRAINY in Russian 19 Oct 95 p 3*

[Article by Lyudmila Kokhanets, under "In Deputy Factions and Groups" rubric: "'Center' Against Subsidies, But For Union. With the Whole World"]

[FBIS Translated Text] [Boxed item]*At recent meetings of "Center," much attention has been paid to questions of state authority, specifically, to the formation of its third branch—the judicial. Today, in the opinion of the majority of centrists, a paradoxical situation has developed: while passions are boiling around the legislative and executive branches, a fact that testifies to their independence, around the judicial branch there is nearly total silence: it is still not perceived as a separate branch of government. Individual jurist deputies are declaring themselves for immediate judicial system reform. At the same time, members of "Center" suggest that this is one of the most important problems in our state, and that we must work more decisively towards its resolution.*

*As you remember, at the beginning of September, problems related to Constitutional Court elections also took a turn for the worse.*[end box]

—This is an artificial problem,—states Mikhail Sirota, people's deputy and one of "Center's" centrists. —Just what is the Constitutional Court in your understanding? Some kind of appendage to the judicial branch, like a tug-of-war rope: if the president pulls harder, his power increases, if parliament wins—it comes out on top. This doesn't happen in the real world. In the traditionally democratic states, there is a Supreme Court: a self-sufficient, fully independent branch of government, and one of its "offshoots" is the Constitutional Chamber, which studies constitutional questions. That is when it is truly an independent institution, and not a "rope." I believe that this is the way we should go. And one more thing. Today, we can also see beyond the tug-of-war for power between the Supreme Court and the Ministry of Justice. This is complete nonsense. The ministry is one of the divisions of the executive branch; it can neither regulate nor coordinate the work of the court. This is an entirely different sphere. All courts must be subordinate only to the Supreme Court, which is, again I will repeat, fully independent from the two first branches of government.

Members of the "Center" deputy group also feel that it would be useful to adopt the new criminal procedure code quickly: the structure of crime has changed radically in comparison with the sixties, when the current code was adopted, and our law enforcers are attempting to subdue modern mafiosi with those obsolete laws. Although everyone understands perfectly that just adopting the code—no matter what it looks like when it's finished—cannot strike a perceptible blow against crime without radical reform of the court, the procuracy and law enforcement organs.

The centrists, of course, have touched upon yet another question, which floated to the top of parliamentary life on Friday, October 6th,—the declaration of the newly-arisen "Union" deputy group initiating the creation of an association of the former Soviet republics with the same name. True, the reaction by "Center" group members to this initiative that was enunciated by Ivan Simonenko, the deputy from the Chernigov area, was not as painful as that of their colleagues in parliament's right flank. At least the reaction of most of the deputies I spoke with was not without irony concerning the latest "great panacea" Although it is fairly simple: among centrists, the idea of a "new Union" won't find any support whatsoever. They stand for an independent state that will live in peace, friendship and multilateral ties with the entire world. "We don't need to come together in a Union, we need to work together well with all states."

—Today, the opinion is popular,—said Mikhail Sirota, commenting on "Center's" position,—that the Soviet Union was destroyed by Gorbachev, the democrats, imperial agents, or someone else... Far from all people understand that the USSR was doomed to collapse for objective reasons, namely—because it was a dictatorship that was built on two whales: merciless exploitation of the environment and merciless exploitation of man. Today, the environment is a zone of elemental disaster. People have begun to degenerate at a genetic level. And when we make speeches proposing that the system be rehabilitated, we either don't understand the reasons that led to the Union's collapse, or we are consciously pushing people into a dead end. Now, we've joined the European Council. This is an entirely different association. Here, we have the European Council, we have the CIS. We definitely can and must work together with them, but under one condition: we are an independent state, with all of its attributes. And only this way.

I would like to say one more thing. Many deputies received the declaration very negatively. Each of us may have his own position. Others have the right not to accept it and to do anything they can so that it isn't realized. But I suggest that there is no need to take away a deputy's right to defend his point of view, even if it is, in our view, incorrect. If the authors of the declaration don't understand that they are proposing a stillborn idea, it's their problem. There is no need to get so hot under the collar; it's not going to get any results, anyway. Thank God.

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In concluding their discussion of today's parliamentary issues, members of the "Center" deputy group formulated their attitude towards the draft law proposed by deputy Shekhovtsov, as well—on subsidies for housing and utilities. The majority of the centrists feel that this system would not resolve a single problem; on the contrary, it would only pervert the social sphere. Subsidies can be considered a dole, one that is at far from a level that would ensure a normal existence. Can we really support people legislatively? "Center" deputies feel that after the government's program of action is approved, it remains to develop a good law on pensions that would provide for not only a higher standard of living, but that would stipulate a distinct gradation, as well: he who has worked a century lives more richly than a lazy man—he has only himself to blame. And subsidies, in fact, nullify the principle of social justice. Therefore, "Center" deputies are against both the idea of subsidies and against the "Union" for the same reason—stillborn initiatives won't see any support from them.

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